

CMP: INR 485

Rating: Buy

Target Price: INR 612

Stock Info

BSE	532509
NSE	SUPRAJIT
Bloomberg	SEL:IN
Reuters	SUPE.NS
Sector	Auto Components & Equipment's
Face Value (INR)	1.00
Equity Capital (INR Mn)	138
Mkt Cap (INR Mn)	66,479
52w H/L (INR)	640/357
Avg Yearly Vol (in 000')	354

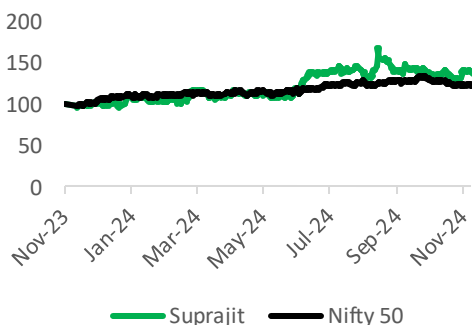
Shareholding Pattern %

(As on Sep, 2024)

Promoters	44.6
FII	6.30
DII	17.20
Public & Others	31.86

Stock Performance (%)	1m	3m	12m
Suprajit	-0.49%	-3.64%	35.33%
Nifty	-3.30%	-0.84%	23.64%

Suprajit Engineering Ltd. Vs Nifty



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Suprajit Engineering Ltd reported its Q2FY25 numbers, with revenue at INR 8,336 Mn, up by 17.59% YoY and 13.44% QoQ, above our estimates of INR 8,024 Mn. Gross profit for the quarter was INR 3,605 Mn, reflecting a 24.86% YoY increase and a 11.55% QoQ rise, above our estimate of INR 3,357 Mn. Gross margins increased by 252 bps YoY to 43.3%, and declined by 73bps QoQ, above our estimate of 41.8%. EBITDA for the quarter was INR 630 Mn, marking a decline of 9.75% YoY and 27.04% QoQ, below our estimate of INR 890 Mn. EBITDA margin decreased by 228.9 bps YoY to 7.56%, registering a decline of 419.4 bps QoQ, below with our estimate of 11.1%. "The consolidated financial results include expenses related to the acquisition, restructuring costs, and certain one-time provisions for expenses." PAT for the quarter was INR 5 Mn, down by 98.62% YoY and 98.7% QoQ, below our estimate of INR 475 Mn. The PAT margin decreased by 484.6 bps YoY and decreased 513.2 bps QoQ to 0.06% in Q2FY25, compared to 5.1% in Q1FY25.

Investment Rationale

Focus on Restructuring Matamoros and Improving Operational Efficiency: The focus is initially on Matamoros, particularly from the LDC entities, as it requires the most attention due to both internal and external factors. Internally, operational and team efficiencies are being addressed as part of the restructuring, which may improve performance, though it likely won't fully offset the wage price increases. Over the next two years, a 40-50% increase is expected, but the restructuring should still improve overall efficiency. Additionally, the performance of the Suprajit controls division needs to be evaluated, while other areas have been performing quite well, as Mohan mentioned.

Growth Strategy for SCS Products: The SCS product line represents a key growth area, with a strong foundation built on control cables and other products being developed at the technology center in Bangalore. Key areas of focus include braking systems for the off-highway and 2W segments, actuators for automotive and other industries, and expanding electronics and digital clusters. With growing demand in India and opportunities in global markets, particularly Europe, these innovations are poised for significant growth.

Outlook and Valuation

The management is targeting to achieve double-digit EBITDA margins and stabilizing SCS profitability. They expect growth in the aftermarket segment in H2FY25 and see opportunities for expansion through consolidation in the global cable business, driven by customer demand for onshoring, near-shoring, and offshoring capabilities. For SCS, losses are expected to continue for the next 2-3 quarters as operations are stabilized and restructured. The Phoenix Lamps Division is expected to maintain its strong margin performance. Additionally, the company is developing new products like an electronic throttle and sensors, which are anticipated to contribute to future growth. We expect Suprajit's revenue, EBITDA, and PAT to grow at a CAGR of 13.41%, 23.89%, and 46.59%, respectively, over FY25-FY27E. We used DCF model to arrive at a target price of INR 612 per share (Earlier target price of INR 753 per share). Accordingly, we maintain our "BUY" rating on the stock.

Exhibit 1: Financial overview

Year-end March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)	ROE (%)	ROCE (%)
FY23	27,524	3,006	1,521	11.0	10.9%	24.2	44.1	12.4%	12.7%
FY24	28,959	3,230	1,558	11.3	11.2%	22.4	43.1	11.4%	13.0%
FY25E	32,518	3,136	1,215	8.9	9.6%	23.5	54.7	8.4%	11.5%
FY26E	36,730	4,188	2,169	15.8	11.4%	17.5	30.6	13.3%	15.8%
FY27E	41,820	4,814	2,611	19.0	11.5%	15.1	25.5	14.1%	16.9%

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY25 - Quarterly Performance (Consolidated)

Quarterly Results					
Consolidated (INR Mn)	Q2 FY25	Q1 FY25	Q2 FY24	QoQ%	YoY%
Net Sales	8335.96	7348.57	7088.74	13.44	17.59
Purchase of stock in trade	4694.77	4058.45	4204.60	15.68	11.66
Change in inventories	-126.15	-27.59	-74.20	-357.23	-70.01
COGS	4730.55	4116.48	4201.26	14.92	12.60
GP	3605.41	3232.09	2887.48	11.55	24.86
GP margining (%)	43.25%	43.98%	40.73%	-73.13	251.80
Employees benefits expense	1896.75	1641.53	1564.63	15.55	21.23
Other expenses	1078.64	726.99	624.80	48.37	72.64
EBITDA	630.02	863.57	698.05	-27.04	-9.75
EBITDA Margin (%)	7.56%	11.75%	9.85%	-419.37	-228.94
Depreciation	324.08	261.72	256.98	23.83	26.11
EBIT	305.94	601.85	441.07	-49.17	-30.64
EBIT Margin (%)	3.67%	8.19%	6.22%	-451.99	-255.20
Other Income	124.72	104.92	187.36	18.87	-33.43
Finance costs	146.11	122.62	136.29	19.16	7.21
PBT	284.55	584.15	492.14	-51.29	-42.18
Tax	279.76	202.78	144.55	37.96	93.54
Reported PAT	4.79	381.37	347.59	-98.74	-98.62
PAT Margin (%)	0.06%	5.19%	4.90%	-513.23	-484.59
EPS	0.03	2.78	2.51	-98.74	-98.61

Margins	Q2 FY25	Q1 FY25	Q2 FY24	QoQ%	YoY%
Cost Analysis					
RM/Net Sales	56.32	55.23	59.31	-299.43	109.17
Other Exp/Net Sales	12.94	9.8929	8.81	412.56	304.67
Staff cost/Net sales	22.75	22.34	22.07	68.18	41.57

Source: Arianth Research, Company Filings

Suprajit Engineering Ltd- Q2FY25 Concall KTAs

STC expanded its team and facilities. Aim to achieve double digit EBITDA margins and stabilizing SCS profitability. Challenges include stagnant global automotive growth, SCS losses, and issues in the European market. The company completed a share buyback and faced oneoff charges affecting its financial results. Despite these challenges, management is optimistic about increasing MS through global reach and cost advantages.

European Car Makers: European car manufacturers are retreating, with Volkswagen making several announcements. Large economies like Germany and France are struggling, causing general fear in the market and the economy in Europe.

China's Market Expansion: China is focused on its internal battles but is also aggressively expanding into the European market.

Logistics Issues: The Red Sea and Panama Canal disruptions persist, leading to high shipment times, container shortages, and increased pace costs.

SCD Performance: SCD has performed reasonably well, achieving 3% revenue growth and showing strong EBITDA margins. SAL (EU), SU (Hungary), Wescon, China Lonestar all divisions are doing well, and new business is being developed, which benefits SEL.

Matamoros continues to face two major challenges, tariff issues and high employee costs.

Matamoros Restructuring: About a month ago, the company launched an aggressive restructuring exercise to consolidate, energize, and repurpose management talent in the Americas. This exercise will likely take two to three more quarters to complete.

Domestic Cable Division (DCD): DCD has maintained a sharp focus on profitable growth. Its profitability has bounced back, and expansion is strong, with a strategy that now includes "beyond cables" projects, especially in breaking products.

Electronics Division: The company has started exploring business beyond India and beyond EVs. As a first step, it has begun supplying electronic PCBs to its overseas subsidiaries that purchase them locally.

STC (Technology Center): The Technology Center continues to develop and commercialize new products for the supergig stable. The company also plans to build its own infrastructure for STC at the location where it was first established in 1985.

SCS (Acquired out of Insolvency): Stage one of a two stage process. In Q2, the company put in significant effort to stabilize the SCS entities and return them to normal operations. Teams were air dropped into Europe and Morocco, and parallel SAP systems were created to run two legal entities in one location. The company had to shut down the Poland plant, which caused complications and led to oneoff costs in Q2FY25. The downturn in the European automotive market is impacting SCS performance.

SCS operations are incurring EBITDA losses, with recovery expected to take a few more quarters.

The negative operational data for the quarter was expected given the complexity of the insolvency situation.

5 Reasons for Negative Operational Numbers: 1. A significant drop in topline revenue due to the European market slowdown. 2. Many customers had built up safety stock in case SCS went insolvent, reducing their need to purchase from SCS. 3. Expedited freight costs in Q2, particularly due to the shutdown of the Poland location and the rampup of the Moroccan plant. 4. A complex supply chain, with European purchases being sent to Germany, warehoused, then shipped to Morocco, and finally back to Germany before reaching customers. The company is simplifying this process by ensuring suppliers ship directly to Morocco. 5. The rampup of the Moroccan plant involved complex logistics, which contributed to higher operational costs.

EBITDA Growth: Strong orders secured in both the automotive and nonautomotive sectors.

DCD: Achieved 15.64% YoY revenue growth, with a healthy 17.25% EBITDA margin. Contributions from "beyond cables" projects were significant.

PLD: Saw 3.43% YoY revenue growth and 26.09% EBITDA growth. The Indian aftermarket segment performed exceptionally well.

SED: Experienced impressive 59.29% YoY revenue growth with substantial EBITDA growth. The division also started exports to a global automotive OEM via SCD.

STC Expansion: Expanded the team for enhanced product development and launch capabilities.

The company also celebrated the groundbreaking ceremony for its new STC facility.

Automotive growth in India has fallen short of expectations. Global automotive growth is stagnant, with downturns in nonautomotive sectors.

Employee costs and tariffs continue to challenge Matamoros.

The company completed a share buyback in September 2024.

Oneoff charges, writeoffs, and acquisitionrelated expenses affected consolidated financial results.

Corporate and STC teams have been strengthened.

There are uncertainties in the Indian market regarding vehicle inventory levels.

DCF Valuation

Valuation Assumptions

Risk free rate	7%
Risk premium	10%
Beta	0.85
Terminal Growth rate	3%
CMP (INR)	485

WACC

We	91.4%
Wd	8.6%
Ke	9.6%
Kd	5.9%
WACC	9.25%

Valuation Data

Total Debt (long term borrowings) (2024)	1,823
Cash & Cash Equivalents (2024)	1,155
Number of Diluted Shares (2024)	137
Tax Rate (2025)	26%
Interest Expense Rate (2025)	8%

MV of Equity	66,479
Total Debt	6,239
Total Capital	72,718

FCFF & Target Price

FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Year
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	1,497	2,236	2,653	3,095	3,551	4,005	4,438	4,832	5,166	5,422	5,584	5,752
Dep	1,113	1,167	1,230	2,167	2,486	2,804	3,107	3,382	3,616	3,795	3,909	3,909
Purchase of Assets	1,301	1,286	1,464	1,393	1,598	1,802	1,997	2,174	2,325	2,440	2,513	4,272
Changes in Working Capital	-989	-951	-932	-1,483	-1,702	-1,919	-2,127	-2,315	-2,475	-2,598	-2,676	-2,756
FCFF	2,299	3,069	3,351	5,352	6,141	6,925	7,675	8,355	8,933	9,375	9,656	8,145
% Growth in Post Tax EBIT		49%	19%	17%	15%	13%	11%	9%	7%	5%	3%	3%
As % of Post Tax EBIT												
Dep												
Purchase of Assets	74%	52%	46%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Changes in Working Capital												
Capital	87%	57%	55%	45%	45%	45%	45%	45%	45%	45%	45%	45%
	-66%	-43%	-35%	-48%	-48%	-48%	-48%	-48%	-48%	-48%	-48%	-48%
FCFF												
Terminal Value	2,299	3,069	3,351	5,352	6,141	6,925	7,675	8,355	8,933	9,375	9,656	8,145
Total Cash Flow												1,24,069

Enterprise Value (EV)	84533
Less: Debt	1823
Add: Cash	1155
Equity Value	83865

Equity Value per share (INR)	612
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% Returns	26.2%
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Rating	BUY
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WACC (%)

	Terminal Growth(%)									
612	2.0%	2.3%	2.5%	2.8%	3.0%	3.3%	3.5%	3.8%	4.0%	
8.3%	601	616	633	650	668	688	710	733	759	
8.5%	588	603	619	636	654	673	694	717	742	
8.8%	576	590	606	622	639	658	679	701	725	
9.0%	564	578	593	608	625	644	664	685	709	
9.3%	552	565	580	595	612	630	649	670	693	
9.5%	540	553	568	583	599	616	635	655	678	
9.8%	529	542	556	570	586	603	621	641	663	
10.0%	518	531	544	558	573	590	608	627	648	
10.3%	507	519	532	546	561	577	595	613	634	

Source: Company reports, Arihant Capital Research, Figures are in INR Mn except share price and percentage data

Story in charts (INR Mn)

Exhibit 3 : Price decreases in raw materials this quarter led to reductions passed on to customers, negatively impacting revenues

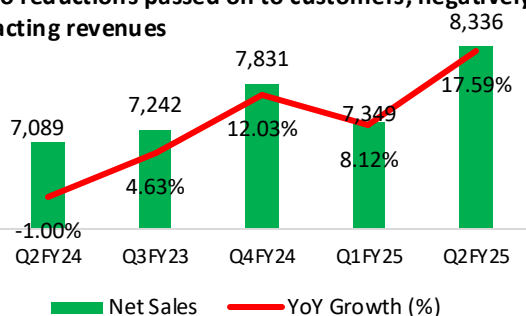


Exhibit 4: Ongoing expenses related to the acquisition and restructuring of SCS are impacting short-term profitability

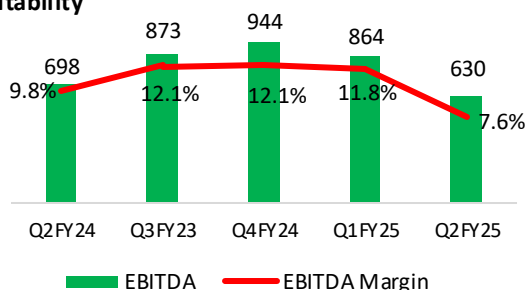


Exhibit 5: Mexican operations faced wage inflation pressures which impacted profitability

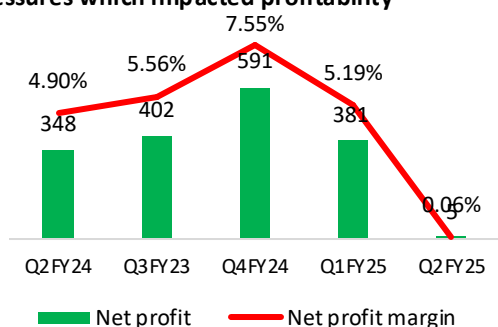


Exhibit 6: Decline in EPS due to stock buyback

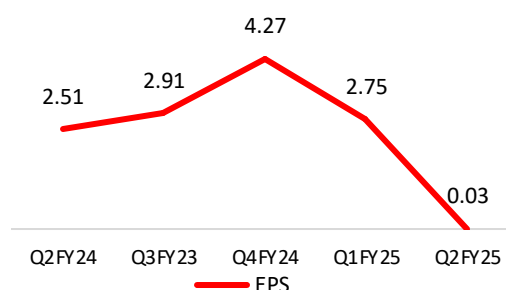


Exhibit 7: The non-automotive business in North America faced challenges due to high interest rates and lower consumer spending on outdoor power equipment

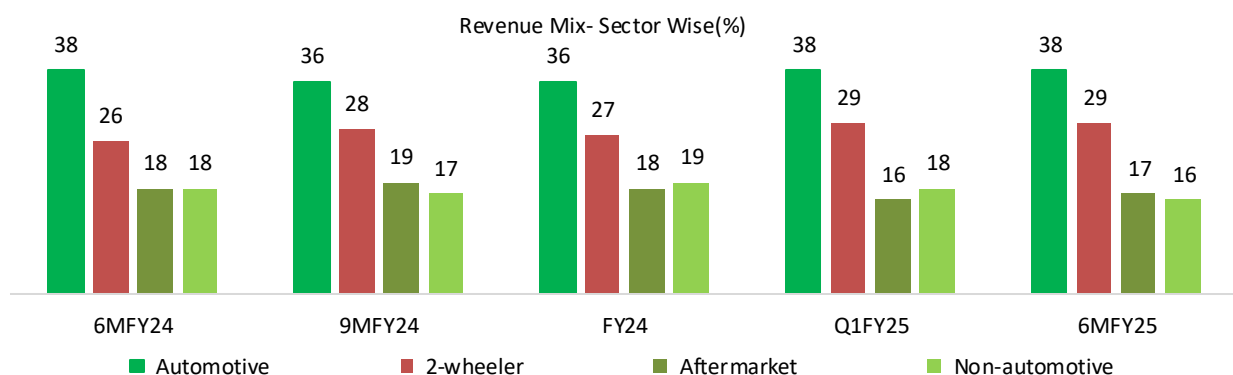
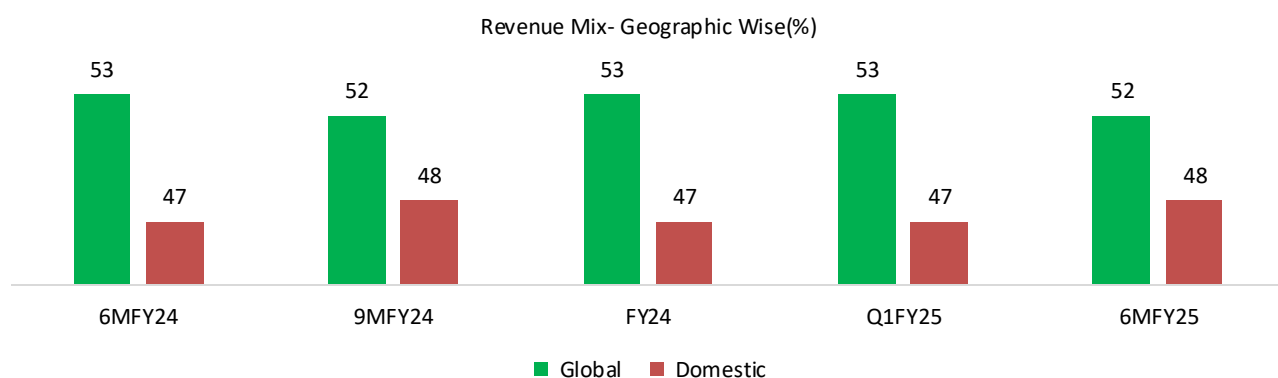


Exhibit 8: Domestic Cable Division (DCD) saw strong volume growth; Suprajit Europe continues to win large contracts



Source: Company, Arianth Research

Key Financials

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Gross Sales	27,524	28,959	32,518	36,730	41,820
Net Sales	27,524	28,959	32,518	36,730	41,820
YoY (%)	49.5%	5.2%	12.3%	13.0%	13.9%
Adjusted COGS	16,169	16,982	18,944	21,139	23,985
YoY (%)	49.9%	5.0%	11.6%	11.6%	13.5%
Personnel/ Employee benefit expenses	5,744	6,206	7,154	7,994	9,182
YoY (%)	70.8%	8.0%	15.3%	11.7%	14.9%
Manufacturing & Other Expenses	2,604	2,540	3,283	3,409	3,839
YoY (%)	57.4%	-2.5%	29.3%	3.8%	12.6%
Total Expenditure	24,517	25,729	29,381	32,541	37,006
EBITDA	3,006	3,230	3,136	4,188	4,814
YoY (%)	15.7%	7.4%	-2.9%	33.5%	14.9%
EBITDA Margin (%)	10.9%	11.2%	9.6%	11.4%	11.5%
Depreciation	955	1,037	1,113	1,167	1,230
% of Gross Block	10.5%	9.4%	9.5%	9.3%	9.2%
EBIT	2,052	2,192	2,023	3,021	3,585
EBIT Margin (%)	7.5%	7.6%	6.2%	8.2%	8.6%
Interest Expenses	356	514	517	539	567
Non-operating/ Other income	506	599	546	617	702
PBT	2,202	2,278	2,053	3,099	3,720
Tax-Total	681	720	838	930	1,109
Adj. Net Profit	1,521	1,558	1,215	2,169	2,611
Reported Profit	1,521	1,558	1,215	2,169	2,611
PAT Margin	5.5%	5.4%	3.7%	5.9%	6.2%
Shares o/s/ paid up equity sh capital	138	138	137	137	137
Adj EPS	11.0	11.3	8.9	15.8	19.0
Dividend per share	2.0	2.2	2.5	2.8	3.0
Dividend payout (%)	18.7%	19.9%	28.2%	17.4%	15.8%
Retained earnings	1,237	1,247	872	1,792	2,199

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	1,521	1,558	1,215	2,169	2,611
Adjustments: Add					
Depreciation and amortisation	955	1,037	1,113	1,167	1,230
Interest adjustment	356	514	517	539	567
Adjustments: Less					
Other changes	-506	-599	-546	-617	-702
Change in assets and liabilities	2,325	2,510	2,299	2,169	2,611
Inventories	-1,393	377	-865	-733	-814
Trade receivables	-1,637	-577	-695	-762	-921
Trade payables	984	357	194	249	516
Other liabilities and provisions	1,425	506	592	529	579
Other Assets	-251	-194	-215	-234	-293
Taxes	-189	-196	0	0	0
Net cash from operating activities	1,549	3,094	1,652	2,684	3,184
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-3,329	-1,272	-1,438	-771	-880
Net Sale/(Purchase) of investments	-1,833	-676	-513	-564	-620
Others	414	562	546	617	702
Net cash (used) in investing activities	-4,748	-1,386	-1,405	-719	-799
Interest expense	3,101	-556	-203	-182	-164
Dividend paid	-284	-311	-343	-377	-411
Other financing activities	-429	-724	-834	-916	-977
Net cash (used) in financing activities	2,389	-1,591	-1,379	-1,475	-1,552
Closing Balance	1,069	1,186	54	544	1,377
ECF	3,655	4,697	3,153	3,912	4,520
Capex as % of sales	7.7%	5.5%	4.0%	3.5%	3.5%

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	138	138	137	137	137
Reserves & Surplus/ Other Equity	12,106	13,483	14,356	16,148	18,347
Networth	12,245	13,622	14,493	16,285	18,484
Unsecured Loans / Borrowings/ Lease Liabilities	7,175	7,081	7,300	7,581	7,926
Other Liabilities	766	580	606	606	607
Total Liabilities	24,345	25,794	27,276	29,665	32,798
Total Funds Employed	12,100	12,173	12,784	13,380	14,313
Application of Funds					
Net Fixed Assets	5,884	8,079	8,515	8,840	8,445
Capital WIP	274	72	72	72	72
Investments/ Notes/ Fair value measurement	25	1	1	1	1
Current assets	15,622	16,697	17,855	20,639	24,121
Inventory	4,826	4,449	5,315	6,048	6,862
Davs	93	100	101	103	103
Debtors	4,608	5,185	5,880	6,642	7,562
Davs	61	65	66	66	66
Other Current Assets	760	781	968	1,216	1,531
Cash and Cash equivalent	1,001	1,155	52	530	1,342
Current Liabilities/Provisions	8,154	8,925	9,712	10,491	11,587
Creditors / Trade Payables	2,923	3,281	3,474	3,723	4,239
Davs	39	41	39	37	37
Liabilities	887	826	977	1,023	1,071
Provisions	348	406	426	447	469
Net Current Assets	7,468	7,773	8,143	10,148	12,534
Total Asset	24,345	25,794	27,276	29,665	32,797
Total Capital Employed	16,877	18,022	19,134	19,517	20,264
Net Current Assets	15,622	16,697	17,855	20,639	24,121
Total assets	24,345	25,794	27,276	29,665	32,797
Net working capital	7,468	7,773	8,143	10,148	12,534

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.52	0.46	0.45	0.41	0.38
Net Debt / Equity	0.45	0.38	0.44	0.38	0.31
Debt / EBITDA	2.13	1.93	2.06	1.61	1.47
Current Ratio	1.82	1.58	2.04	1.49	1.20
DuPont Analysis					
Sales/Assets	1.13	1.12	1.19	1.24	1.28
Assets/Equity	1.99	1.89	1.88	1.82	1.77
RoE	12.42%	11.44%	8.38%	13.32%	14.12%
Per share ratios					
Reported EPS	10.99	11.25	8.86	15.83	19.05
Dividend per share	2.05	2.24	2.50	2.75	3.00
BV per share	88.48	98.38	105.73	118.81	134.85
Cash per Share	7.23	8.34	0.38	3.87	9.79
Revenue per Share	198.88	209.15	237.23	267.96	305.10
Profitability ratios					
Net Profit Margin (PAT/Net sales)	5.53%	5.38%	3.74%	5.91%	6.24%
Gross Profit / Net Sales	41.25%	41.36%	41.74%	42.45%	42.65%
EBITDA / Net Sales	10.92%	11.15%	9.65%	11.40%	11.51%
EBIT / Net Sales	7.45%	7.57%	6.22%	8.23%	8.57%
ROCE (%)	12.67%	13.00%	11.52%	15.76%	16.90%
Activity ratios					
Inventory Days	93.22	99.68	94.06	98.10	98.23
Debtor Days	50.26	61.72	62.10	62.22	61.98
Creditor Days	54.89	66.67	65.08	62.14	60.59
Leverage ratios					
Interest coverage	5.77	4.27	3.92	5.60	6.33
Debt / Asset	0.26	0.24	0.24	0.23	0.22
Valuation ratios					
EV / EBITDA	24.16	22.38	23.45	17.52	15.15
EV / EBIT	35.40	32.96	36.35	24.28	20.35
EV / Net Sales	2.64	2.50	2.26	2.00	1.74
PE(x)	44.13	43.10	54.72	30.65	25.46

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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