



# Suprajit Engineering Ltd

**Back on the growth path, STC – a big step for growth ahead!**

On the expected lines, QoQ performance improved and is higher than expectation with growth & margin improvement witnessed across its four segments. Q2 performance largely lifted-up owing to good show in Phoenix & Non-auto. All three traditional businesses are in the fast lane, LDC's improvement is real, and Suprajit Technical Centre (STC) to give additional wing to fly higher. We believe the company is putting good efforts to de-risk and grow beyond cables, this would provide additional growth opportunities. The company is moving up the value chain, rediscovering itself for a profitable growth ahead. It is capable to invest in complex & future-ready products. **Maintain BUY rating!**

## Traditional businesses on strong footing

- Auto cables is winning new businesses globally despite geopolitical situation, margins are at healthy ~17% level with good visibility ahead. Expect a continued strong show ahead.
- Non-auto cables has been expanding product wise as well as geography wise, winning new businesses & have good long-term growth plans. Expect healthy 14-15% margin range to continue.
- Both cable divisions posted highest its quarterly revenue.
- Since last five quarters, Phoenix witnessed disruption in passing high input costs and was in poor shape due to geopolitical situation. In Q2, margin came back to 7.5% level and further improvement is on cards led by price pass-on to OEMs & aftermarket.

## Light duty cable (LDC) – QoQ margin improvement to continue & good growth plans ahead

- On expected lines, LDC's margin has been improving & will turn in black from Q3 onwards. Price pass-on and supplier base consolidation will further move margins higher to double-digit by end of FY24e.
- LDC to achieve \$90mn revenue in FY23e, \$100mn in FY24e with betterment in the margin performance. It won new businesses with a superior level of margin.
- The bigger plan is to localize EMA and to cross sell each other products in domestic & international markets.

## STC – a new growth avenue, to support in growing beyond cables

- Received orders for digital instrument cluster, sensors, lock actuator, etc. largely from EV OEMs. A few products are under development to grow faster beyond cables.
- Suprajit to also cross-sell clusters to Wescon's customers. All these new products are much higher than current realization, and margins in mid-term will be in double-digit. It has orders of Rs1.6bn+.
- The company expects to report minimum revenue from new products of Rs800mn in FY23e and Rs1.4bn in FY24e.

## Reasonably attractive valuations, maintain BUY!

- Suprajit's historic year-on-year outperformance is noticeable. We believe apart from strong growth visibility in its traditional business, LDC's global reach and new products from STC will be the new growth drivers for mid-to-long term.
- Its trading at ~16.3x Sep '24 estimated EPS of Rs 20.4. Assigned multiple of 21x to Sep '24e EPS to arrive at a fair value of Rs428 per share. Maintain Buy recommendation. We have kept the target multiple intact, and marginally tweaked estimates.

Y/E Mar (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Q2FY23e	Var. (%)
<b>Total Income</b>	<b>7,161</b>	<b>4,937</b>	<b>45.0</b>	<b>6,452</b>	<b>11.0</b>	<b>6,992</b>	<b>2.4</b>
Gross margin (%)	39.5	42.6	(310) bps	40.4	(93) bps	-	-
<b>EBITDA</b>	<b>787</b>	<b>801</b>	<b>(1.7)</b>	<b>540</b>	<b>45.8</b>	<b>739</b>	<b>6.4</b>
EBITDA margin (%)	11.0	16.2	(523) bps	8.4	262 bps	10.6	41 bps
Other income	217	152	43.2	181	19.8	-	-
<b>PBT</b>	<b>688</b>	<b>726</b>	<b>(5.2)</b>	<b>423</b>	<b>62.5</b>	-	-
Taxes paid	231	231	0.1	150	53.6	-	-
Effective tax rate (%)	33.5	31.7	178 bps	35.5	(196) bps	-	-
<b>Reported PAT</b>	<b>457</b>	<b>496</b>	<b>(7.7)</b>	<b>273</b>	<b>67.5</b>	-	-
PAT margin (%)	6.4	10.7	(433) bps	4.2	215 bps	-	-
<b>Adjusted PAT</b>	<b>457</b>	<b>529</b>	<b>(13.5)</b>	<b>273</b>	<b>67.5</b>	<b>400</b>	<b>14.2</b>

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj. PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY21	16,409	5.0	2,367	14.4	1,427	14.6	10.2	15.5	12.2	17.9	10.5
FY22	18,405	12.2	2,599	14.1	1,643	15.2	11.9	15.9	12.7	28.5	17.5
FY23e	28,329	53.9	3,213	11.3	1,789	8.8	12.9	15.4	12.2	25.8	15.2
FY24e	31,947	12.8	4,323	13.5	2,608	45.8	18.8	19.4	14.6	17.7	10.8
FY25e	34,777	8.9	4,916	14.1	3,036	16.4	21.9	19.2	15.2	15.2	9.0

Source: Company, SMIFS Research Estimates

Rating: Buy Upside: 28.7%  
 Current Price: 333 Target Price: 428

Earlier recommendation	
Previous Rating:	Buy
Previous Target Price:	433

Market data	
Bloomberg:	SEL IN
52-week H/L (Rs):	478/272
Mcap (Rs bn/USD bn):	45.9/0.6
Shares outstanding (mn):	138.4
Free float:	55.0%
Daily vol. (3M Avg):	0.27 mn
Face Value (Rs):	1
Group:	BSE 500

Source: Bloomberg, SMIFS Research

Shareholding pattern (%)				
	Sep-22	Jun-22	Mar-22	Dec-21
Promoter	44.6	44.6	44.6	44.6
FIIs	5.0	4.9	5.0	5.9
DIIIs	14.8	14.9	14.9	14.1
Public/others	35.6	35.6	35.5	35.4

Source: BSE

Promoters pledging (%)				
% of O/S shares	Sep-22	Jun-22	Mar-22	Dec-21
	-	-	-	-

Source: BSE

Price performance (%) *				
	1M	3M	12M	36M
BSE 500	5.7	3.4	0.7	62.7
SEL	2.3	1.4	-22.3	88.4

\*As on 14<sup>th</sup> Nov 2022; Source: AceEquity, SMIFS Research

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## Q2FY23– Key takeaways from the management call

### Auto cables – consistently performing well

- Performance was good with OEM & aftermarket, able to pass-on material cost with a lag.
- One stop facility for aftermarket will be ready by end of FY23e.
- Suprajit is winning new businesses in Europe & successfully launched a few cables with new customers. Gaining share at the cost of smaller players.

### Non-auto cables – confident on growth prospects

- Efficiencies are improving, sales and EBITDA growth was good in non-auto. Winning new contracts and the management is confident of good performance going ahead.
- Very strong traction witnessed in the cable division in the US, and selling new products will be growth drivers. Will be developing new products for global non-auto segment in 2-3 years' time.
- H2FY23 EBITDA margin will be in the range of 12-13%. Some margin improvement is possible due to reduction in freight rate.

### Phoenix Lamps – positive change of trend, margin to improve

- Successful in passing costs to OEMs and aftermarket. Able to tighten belt on RMC and other input costs. Restructuring exercise at PLD is ongoing as per the plan.
- In the last two months, seeing changing trend, and hence expect the margin to start improving from Q3 onwards.
- Can't make LEDs in existing plants. On halogen, the company will continue to be significant player and last man standing plan persists.
- LED retrofit solution launched in the aftermarket is well taken by customers. Phoenix is the market leader for that particular product.

### Light Duty Cable division (LDC) – performance in-line with the plan

- LDC shown good improvement in performance despite worsening geopolitical conditions. The integration efforts continued by MAX team of Suprajit.
- Price increases majorly taken in the non-auto piece of business and efforts continue to get price increase from auto customers as well. Some more price increase to happen in Q3, and supplier consolidation is a continuous process.
- China plant operation delivered well in Revenue & EBITDA level. No shutdown happened in Q2FY23, but some customers & suppliers faced challenges.
- Hungary plant impacted due to currency depreciation, high inflation, etc. However, the plant shown improvement & the company is working on various actions, including price increases, supplier base consolidation, and moving some manufacturing to India plant.
- Mexico plant sales remain stable despite chip shortages with some customers. EBITDA moved to break-even level, and the company is able to get some price increase mainly in the non-auto division.
- Overall, LDC revenue lowered down by 5-7% from earlier guidance of \$95mn in FY23e, while will see \$100mn sales in FY24e.

- EBITDA margin will improve every quarter, expect Q3FY23 to report positive margin and by FY24 end, will touch double-digit margins.
- LDC won some new businesses with Suprajit level of margin, but will go into production in 1-2 years. In 5-7 years' time, the orders/revenue will be much larger, and will be able to leverage new businesses quite well.

#### **Suprajit Technical Centre (STC) – getting new businesses**

- A new line has been put-up over there. The focus is on the EV space in 2Ws and non-auto segment. The products is well received by customers in India.
- Top selling product is the digital instrument cluster. Received orders for lock actuators and working with one global customer for rotary sensors. Most of the customers are from the EV space.
- Electronics division is the new chapter for future of Suprajit. The starting is good and once this facility is filled-up, have much bigger plans.
- Suprajit is supplying digital instrument cluster only to two-wheeler customers, and has plans to supply to four-wheeler OEMs in the coming years.
- The range of digital cluster is Rs600-2,000. In the next five years' time, the aim is to increase content per vehicle in 2W space.
- 2-3 large players are competing in clusters, while sensors are new & import is happening. Other competitors are also trying to develop sensors.
- Margins will be less in the 1<sup>st</sup> 1-2 years for new products, however the aim is to touch a double-digit level in the next 3-4 years.

#### **Other key highlights**

- Capex for India business will be Rs 1.4bn spread across FY23e & FY24e. This is largely to meet requirements for electronics business, new plant for the aftermarket, Phoenix Lamps, Narasapura plant upgrade, etc.
- Consolidated effective tax rate will be 27% in FY23e.

## Outlook and Valuations

- On the expected lines, QoQ performance improved and is higher than expectation with growth & margin improvement witnessed across its four segments. Q2 performance largely lifted-up owing to good show in Phoenix & Non-auto.
- All three traditional businesses are in the fast lane, LDC's improvement is real, and STC to give additional wing to fly higher.
- We believe the company is putting good efforts to de-risk and grow beyond cables, this would provide additional growth opportunities. The company is moving up the value chain, rediscovering itself for a profitable growth ahead. It is capable to invest in complex & future-ready products.
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**Fig 1: 1-year forward P/E**



Source: AceEquity, SMIFS Research

**Fig 2: 1-year forward EV/EBITDA**



Source: AceEquity, SMIFS Research

### Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Revenue	28,329	31,947	34,777	28,183	31,255	34,014	0.5%	2.2%	2.2%
Gross profit	11,388	13,130	14,363	11,245	13,189	14,354	1.3%	-0.4%	0.1%
Gross margin (%)	40.2	41.1	41.3	39.9	42.2	42.2	30 bps	(110) bps	(90) bps
EBITDA	3,213	4,323	4,916	3,103	4,377	4,868	3.5%	-1.2%	1.0%
EBITDA margin (%)	11.3	13.5	14.1	11.0	14.0	14.3	33 bps	(47) bps	(18) bps
PAT	1,789	2,608	3,036	1,732	2,676	3,032	3.3%	-2.5%	0.1%
EPS (Rs)	13	19	22	13	19	21.9	3.4%	-2.4%	0.2%

Source: Company, SMIFS Research

## Quarterly financials, operating metrics & key performance indicators

**Fig 3: Quarterly Financials**

Consolidated (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Sales</b>	<b>5,073</b>	<b>5,130</b>	<b>3,616</b>	<b>4,937</b>	<b>4,793</b>	<b>5,059</b>	<b>6,452</b>	<b>7,161</b>
Raw Materials	2,942	3,013	2,001	2,836	2,911	3,039	3,847	4,336
Employee Costs	884	874	778	866	875	844	1,428	1,443
Other Expenditure	384	426	344	434	466	410	638	595
<b>EBITDA</b>	<b>864</b>	<b>817</b>	<b>492</b>	<b>801</b>	<b>541</b>	<b>766</b>	<b>540</b>	<b>787</b>
Depreciation	143	143	143	146	144	152	237	239
Interest	54	28	47	35	31	32	61	77
Other Income	70	122	66	152	81	68	181	217
Exceptional items	-	-	161	(45)	-	-	-	-
<b>PBT</b>	<b>736</b>	<b>768</b>	<b>529</b>	<b>726</b>	<b>447</b>	<b>650</b>	<b>423</b>	<b>688</b>
Tax	220	193	97	231	130	164	150	231
Tax rate (%)	30	25	18	32	29	25	35	34
<b>Reported PAT</b>	<b>516</b>	<b>575</b>	<b>432</b>	<b>496</b>	<b>317</b>	<b>486</b>	<b>273</b>	<b>457</b>
<b>Adjusted PAT</b>	<b>516</b>	<b>575</b>	<b>311</b>	<b>529</b>	<b>317</b>	<b>486</b>	<b>273</b>	<b>457</b>
<b>YoY Growth (%)</b>								
Revenue	23.0	31.9	103.8	11.4	(5.5)	(1.4)	78.4	45.0
EBITDA	72.4	48.8	NA	8.9	(37.4)	(6.3)	9.6	(1.7)
Adj. PAT	65.6	144.2	NA	10.1	(38.6)	(15.4)	(12.1)	(13.5)
<b>QoQ Growth (%)</b>								
Revenue	14.5	1.1	(29.5)	36.5	(2.9)	5.6	27.5	11.0
EBITDA	17.5	(5.4)	(39.8)	62.6	(32.5)	41.6	(29.5)	45.8
Adj. PAT	7.4	11.4	(46.0)	70.3	(40.0)	53.3	(43.8)	67.5
<b>Margin (%)</b>								
RMC/revenue (%)	58.0	58.7	55.3	57.4	60.7	60.1	59.6	60.5
Gross margin (%)	42.0	41.3	44.7	42.6	39.3	39.9	40.4	39.5
Employee cost/revenue (%)	17.4	17.0	21.5	17.5	18.3	16.7	22.1	20.2
Other expenses/revenue (%)	7.6	8.3	9.5	8.8	9.7	8.1	9.9	8.3
EBITDA margin (%)	17.0	15.9	13.6	16.2	11.3	15.1	8.4	11.0
PAT margin (%)	10.2	11.2	8.6	10.7	6.6	9.6	4.2	6.4

Source: Company, SMIFS Research Estimates

**Fig 4: Key assumptions**

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
<b>Auto cable division</b>						
Revenue (Rs mn)	9,358	9,751	10,786	12,284	13,917	15,338
YoY Growth (%)	0.4	4.2	10.6	13.9	13.3	10.2
EBITDA Margin (%)	16.3%	15.9	16.3	16.8	17.1	17.3
<b>Non-Auto cable division</b>						
Revenue (Rs mn)	3,145	3,375	4,200	5,164	5,744	6,272
YoY Growth (%)	(7.4)	7.3	24.4	23.0	11.2	9.2
EBITDA Margin (%)	11.1%	14.4	14.4	13.5	15.0	15.5
<b>Phoenix lamps division</b>						
Revenue (Rs mn)	3,125	3,283	3,419	3,679	4,053	4,382
YoY Growth (%)	(1.9)	5.1	4.1	7.6	10.2	8.1
EBITDA Margin (%)	9.9%	10.2	7.1	7.4	8.4	9.4
<b>Light Duty Cable (LDC)</b>						
Revenue (Rs mn)	-	-	-	7,202	8,232	8,785
YoY Growth (%)	-	-	-	8.6	14.3	6.7
EBITDA Margin (%)	-	-	-	2.5	9.0	10.0

Source: Company, SMIFS research estimates

## Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Revenues</b>	<b>16,409</b>	<b>18,405</b>	<b>28,329</b>	<b>31,947</b>	<b>34,777</b>
Raw Materials	9,547	10,787	16,941	18,817	20,414
% of sales	58.2	58.6	59.8	58.9	58.7
Personnel	3,083	3,364	5,524	6,070	6,521
% of sales	18.8	18.3	19.5	19.0	18.8
Manufacturing & Other Expenses	1,411	1,655	2,651	2,737	2,926
% of sales	8.6	9.0	9.4	8.6	8.4
<b>EBITDA</b>	<b>2,367</b>	<b>2,599</b>	<b>3,213</b>	<b>4,323</b>	<b>4,916</b>
Other Income	336	366	479	518	548
Depreciation & Amortization	568	585	979	1,028	1,076
<b>EBIT</b>	<b>2,136</b>	<b>2,380</b>	<b>2,713</b>	<b>3,813</b>	<b>4,387</b>
Finance Cost	192	145	263	240	229
<b>Core PBT</b>	<b>1,943</b>	<b>2,235</b>	<b>2,450</b>	<b>3,572</b>	<b>4,158</b>
Exceptional Income/(Expense)	-	116	-	-	-
<b>PBT</b>	<b>1,943</b>	<b>2,352</b>	<b>2,450</b>	<b>3,572</b>	<b>4,158</b>
Tax-Total	516	621	662	965	1,123
Effective tax rate (%)	26.6	26.4	27.0	27.0	27.0
<b>Reported PAT</b>	<b>1,427</b>	<b>1,731</b>	<b>1,789</b>	<b>2,608</b>	<b>3,036</b>
<b>Adjusted PAT</b>	<b>1,427</b>	<b>1,643</b>	<b>1,789</b>	<b>2,608</b>	<b>3,036</b>

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23e	FY24e	FY25e
<b>Growth Ratios (%)</b>					
Net Sales	5.0	12.2	53.9	12.8	8.9
EBITDA	8.2	9.8	23.6	34.5	13.7
Net Profit	14.6	15.2	8.8	45.8	16.4
<b>Margin Ratio (%)</b>					
Gross Margin	41.8	41.4	40.2	41.1	41.3
EBITDA Margin	14.4	14.1	11.3	13.5	14.1
EBIT Margin	13.0	12.9	9.6	11.9	12.6
Core PBT Margin	11.8	12.1	8.6	11.2	12.0
PAT Margin	8.7	8.9	6.3	8.2	8.7
<b>Return Ratios</b>					
ROE	15.5	15.9	15.4	19.4	19.2
ROCE	12.2	12.7	12.2	14.6	15.2
<b>Turnover Ratios (days)</b>					
Gross Block Turnover (x)	2.2	2.3	2.7	2.4	2.5
Adjusted OCF/PAT (in %)	99	102	70	115	118
Inventory	120	116	108	108	108
Debtors	74	59	59	59	59
Creditors	95	66	70	70	70
Cash Conversion Cycle	99	109	97	97	97
<b>Solvency ratio (x)</b>					
Debt-equity	0.3	0.3	0.5	0.4	0.3
Net Debt-Equity	(0.1)	(0.1)	0.2	0.1	(0.1)
Gross Debt/EBITDA	1.5	1.3	1.8	1.3	1.0
Current ratio	1.8	2.0	1.7	1.9	2.1
Interest coverage ratio	11.1	16.4	10.3	15.9	19.2
<b>Dividend</b>					
DPS (Rs.)	1.8	2.0	2.0	3.0	3.5
Dividend Yield (%)	1.0	0.6	0.6	0.9	1.0
Dividend Payout (%)	17.2	16.8	15.8	15.8	15.8
<b>Per share (Rs.)</b>					
Basic EPS (reported)	10.2	12.5	12.9	18.8	21.9
Adjusted EPS	10.2	11.9	12.9	18.8	21.9
CEPS	14.3	16.1	20.0	26.3	29.7
BV	70.8	78.3	89.2	105.0	123.4
<b>Valuation</b>					
P/E	17.9	28.5	25.8	17.7	15.2
P/BV	2.6	4.3	3.7	3.2	2.7
EV/EBITDA	10.5	17.5	15.2	10.8	9.0
EV/Sales	1.5	2.5	1.7	1.5	1.3
EV/Core PBT	12.8	20.4	19.9	13.1	10.7

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Sources of funds</b>					
Capital	140	138	138	138	138
Reserves & Surplus	9,757	10,701	12,204	14,394	16,944
<b>Shareholders' Funds</b>	<b>9,897</b>	<b>10,840</b>	<b>12,342</b>	<b>14,533</b>	<b>17,083</b>
<b>Total Loan Funds</b>	<b>3,459</b>	<b>3,365</b>	<b>5,896</b>	<b>5,404</b>	<b>5,159</b>
Other liabilities	724	659	1,015	1,144	1,245
<b>Total Liabilities</b>	<b>14,081</b>	<b>14,864</b>	<b>19,253</b>	<b>21,081</b>	<b>23,487</b>
<b>Application of funds</b>					
Gross Block	7,749	8,100	12,954	13,623	14,300
Net Block	5,649	5,482	9,356	8,998	8,598
Capital WIP	42	94	94	91	88
<b>Investments</b>	<b>3,195</b>	<b>2,619</b>	<b>2,444</b>	<b>2,753</b>	<b>2,994</b>
<b>Other non-current assets</b>	<b>485</b>	<b>603</b>	<b>587</b>	<b>619</b>	<b>640</b>
Inventories	3,145	3,433	5,013	5,568	6,040
Sundry Debtors	3,320	2,972	4,574	5,159	5,615
Cash & Bank Balances	945	1,962	677	1,845	3,836
Other current Assets	351	222	341	385	419
<b>Total Current Assets</b>	<b>7,761</b>	<b>8,588</b>	<b>10,605</b>	<b>12,956</b>	<b>15,911</b>
<b>Sundry Creditors</b>	<b>2,476</b>	<b>1,940</b>	<b>3,249</b>	<b>3,609</b>	<b>3,915</b>
Other Current Liabilities	576	581	585	726	829
<b>Total Current Liabilities</b>	<b>3,052</b>	<b>2,521</b>	<b>3,834</b>	<b>4,335</b>	<b>4,744</b>
<b>Net Current Assets</b>	<b>4,709</b>	<b>6,067</b>	<b>6,771</b>	<b>8,621</b>	<b>11,167</b>
<b>Total Assets</b>	<b>14,081</b>	<b>14,864</b>	<b>19,253</b>	<b>21,081</b>	<b>23,487</b>

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
<b>Operating profit before WC changes</b>					
	<b>2,519</b>	<b>2,832</b>	<b>3,691</b>	<b>4,839</b>	<b>5,462</b>
Net chg in working capital	(427)	(432)	(1,499)	(627)	(501)
Income taxes paid	(482)	(584)	(671)	(978)	(1,138)
<b>Cash flow from operating activities (a)</b>	<b>1,610</b>	<b>1,816</b>	<b>1,522</b>	<b>3,234</b>	<b>3,823</b>
Adjusted OCF	1,418	1,671	1,258	2,994	3,594
Capital expenditure	(251)	(525)	(4,853)	(666)	(674)
Adjusted FCF	1,359	1,291	(3,332)	2,568	3,149
<b>Cash flow from investing activities (b)</b>	<b>(598)</b>	<b>365</b>	<b>(4,832)</b>	<b>(933)</b>	<b>(884)</b>
Debt issuance/(repayment)	(512)	(43)	2,531	(492)	(245)
Dividend Paid	(104)	(275)	(286)	(418)	(486)
Interest and Lease Expenses	(245)	(206)	(263)	(240)	(229)
<b>Cash flow from financing activities (c)</b>	<b>(860)</b>	<b>(1,115)</b>	<b>1,981</b>	<b>(1,150)</b>	<b>(960)</b>
<b>Net chg in cash (a+b+c)</b>	<b>152</b>	<b>1,066</b>	<b>(1,329)</b>	<b>1,152</b>	<b>1,978</b>

Source: Company, SMIFS Research Estimates

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