Q3FY23 Update l Automobile l 17 February 2023

Suprajit Engineering Ltd

Slight miss due to external factors, traction is good across division!

Q3 performance was below estimates due to external factors viz. subdued exports, higher interest rates, power cost & MTM. Auto cables, Phoenix Lamps and LDC performance was remarkable, while Non-auto cables division show was poor due to slowdown in the USA. Suprajit Technical Centre (STC) to give additional wing to fly higher as new products have much higher realization & margins. 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!

Q3FY23 performance – *below estimates owing to weak exports, higher interest outgo, other expenses & lower other income*

- Operational performance was slightly lower than our estimates, but the bottom line impacted a lot due to higher finance cost (+238% YoY & +35% QoQ) due to increase in the interest rates, and substantially lower other income (-36% YoY & -76% QoQ) due to MTM.
- Geopolitical concerns impacted revenue performance, while domestic piece was healthy.
- EBITDA Margin at 11.7% (+41bps YoY & +70bps QoQ) came in lower than our estimates of 12.3% due to increase in other expenses (+38% YoY & +8% QoQ) owing to power cost increase in EU & the US.

Phoenix Lamps – reached at double-digit EBITDA margin, traction to continue

- Phoenix Lamps revenue met estimates, EBITDA margin improvement was impressive at 10.9% in Q3. The double-digit margin performance came after seven quarters & we trust that bad days are over double-digit margin performance to continue.
- It received price increases from customers and witnessed a significant operational improvement. Additionally, Gas prices have come down that supported further.
- 70% revenue comes from aftermarket business, which is moving very strong.
- Restructuring exercise started to improve efficiencies & reduce costs. The management decided to voluntarily would-up Trifa subsidiary. This will take one year with no write-downs expected.
- Only Luxlite subsidiary will be operational with reduced costs & improved efficiencies.

Auto cables division at one of its best level

- A very good performance witnessed in Auto cables division, whereas revenue & margin beaten our estimates. Revenue at Rs3.16bn with 17.3% EBITDA margin is healthy.
- It received price increases & shipping costs dropped supported overall performance. Auto cables margin is sustainable.
- Domestic OEM & Aftermarket performance was robust, while the picture was mixed for exports. New business pipeline remain healthy for the coming years.

Y/E Mar (Rs mn)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Q3FY23e	Var. (%)
Total Income	**6,921**	**4,793**	**44.4**	**7,161**	**(3.3)**	**7,019**	**(1.4)**
Gross margin (%)	41.1	39.3	179 bps	39.5	160 bps	-	-
EBITDA	**809**	**541**	**49.6**	**787**	**2.8**	**862**	**(6.2)**
EBITDA margin (%)	11.7	11.3	41 bps	11.0	70 bps	12.3	(59) bps
Other income	52	81	(35.8)	217	(76.2)	-	-
PBT	**510**	**447**	**14.1**	**688**	**(25.9)**	**-**	**-**
Taxes paid	129	130	(0.1)	231	(43.9)	-	-
Effective tax rate (%)	25.4	29.0	(361) bps	33.5	(814) bps	-	-
Reported PAT	**380**	**317**	**19.9**	**457**	**(16.8)**	**-**	**-**
PAT margin (%)	5.5	6.6	(112) bps	6.4	(89) bps	-	-
Adjusted PAT	**380**	**317**	**19.9**	**457**	**(16.8)**	**545**	**(30.2)**

Soure: Company, SMIFS Research

SMIFS LIMITED
LEGACY | TRUST | GROWTH

Rating: **Buy**	Upside: **23.9%**
Current Price: **359**	Target Price: **445**

|Earlier recommendation

Previous Rating:	Buy
Previous Target Price:	428

|Market data

Bloomberg:	SEL IN
52-week H/L (Rs):	398/272
Mcap (Rs bn/USD bn):	49.7/0.6
Shares outstanding (mn):	138.4
Free float:	55.0%
Daily vol. (3M Avg):	0.23 mn
Face Value (Rs):	1

Source: Bloomberg, SMIFS Research

|Shareholding pattern (%)

	Dec-22	Sep-22	Jun-22	Mar-22
Promoter	44.6	44.6	44.6	44.6
FIIs	5.1	5.4	5.0	5.0
DIIs	15.6	15.2	14.8	14.9
Public/others	34.7	34.8	35.6	35.5

Source: BSE

|Promoters pledging (%)

Promoters pledged shares	0.0	0.0	0.0	0.0

Source: BSE

|Price performance (%) *

	1M	3M	12M	36M
Nifty 50	-0.6	-2.2	3.7	49.0
Nifty 500	-2.6	-3.8	1.6	51.7
SEL	9.2	6.4	8.5	88.2

**As on 17th Feb 2023; Source: AceEquity, SMIFS Research*

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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	27,622	50.1	3,010	10.9	1,636	-0.4	11.8	14.2	11.5	30.4	17.5
FY24e	30,513	10.5	4,126	13.5	2,503	53.0	18.1	18.9	14.3	19.9	12.3
FY25e	33,385	9.4	4,738	14.2	2,933	17.2	21.2	18.9	15.1	17.0	10.2

Source: Company, SMIFS Research Estimates

Light Duty Cable (LDC) – EBITDA margin turned in black, improvement to continue

- LDC revenue met our estimates, although margin turned positive at 3.7% due to restructuring exercise & price adjustments received, but margin is slightly lower than our estimates of 5%. We believe margin improvement trajectory will continue.
- China plant faced Covid disruption, but team managed it well. The outlook for Hungary plant is positive as stability is returning and performance is expected to improve.
- Mexico plant's revenue is stable with margin improvement, expect good traction in the coming years.
- Guidance of $100mn revenue in FY24 with double-digit EBITDA margin by Q4FY24 maintained. The next FY will be good for LDC in revenues and margins.

Non-auto cables – a temporary blip in the performance due to external factors

- Non-auto cables division dragged down overall financials completely. Revenues & margin was much below our anticipation as slowdown in the US market impacted sales.
- The US non-auto segment have witnessed slowdown, which led to a few customers reducing business volumes in Q3.
- The situation will continue to remain the same in Q4FY23 as well. QoQ revenue is likely to remain the same & expect things to start looking healthy from Q1FY24 onwards.

Suprajit Technology Centre (STC) – a new wing to grow beyond cables

- The response for new products is good and have strong orders in hand.
- With new products, the content per vehicle will increase, e.g. digital instrument cluster cost around Rs 600-2,000. Therefore, if 1 or 2 cables come down in ICE vehicle, these new products will more than offset the loss.

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 ~17x FY25 estimated EPS of Rs 21.2. **Assigned multiple of 21x to FY25e EPS to arrive at a fair value of Rs 445 per share**. Maintain Buy recommendation.
- Rollover from Sep '24e to FY25e EPS and marginally tweaked estimates looking at the mixed set of performance across segments in Q3.

Q3FY23– Key takeaways from the management call

Auto cables

- Robust revenue & margin performance despite export sales softness due to geopolitical situation. This is because it received price increases & lower shipping costs.
- The PVs and aftermarket segments have been doing better than 2W. Have a robust business pipeline. Global PV industry growth is stable.
- Auto cables margin is sustainable.

Non-auto cables

- Slowdown in the US market impacted sales, and it will continue in Q4 as well. QoQ revenue will be flat. Expect things to start looking better from Q1FY24 onwards.
- Non-auto cables division will grow next year as it won some new contracts, and recovery in the industry should happen by then.
- This segment will have double-digit EBITDA margin by the end of this year. There are no concerns on that.

Phoenix Lamps

- Margins smartly bounced back in double-digit driven by increase in pricing especially in the aftermarket, followed by cost reduction.
- Gas prices have come down, but not at normalized level. This, along with efficiency improvement supported margins.
- 70% revenue comes from the aftermarket (going strong now) and 30% from OEMs. No capacity constraints. The last man standing philosophy that is adopted a couple of years is now panning out well.
- Restructuring exercises started, will voluntarily shutdown Trifa subsidiary. It will bring costs down & improve efficiencies.
- Suprajit requires a presence in Europe, hence Luxlite subsidiary will continue, which will act as a front-end. Production will happen in India, and Luxlite will only manage warehousing & marketing activities.
- With only one entity, the costs will come down definitively.

Light Duty Cables (LDC)

- Delivered positive EBITDA margin, despite the poor geopolitical situation. This is driven by operational improvements, integration synergies and price adjustments from customers.
- In China, the team managed Covid situation well. The Chinese plant is most margin-accretive within LDC. In Hungary, the demand & cost impact is visible, but shown an improvement. Expect better conditions in Q4.
- In Mexico plant, witnessed price increases & operational improvements, and visibility is good for the business. Expect further improvement.
- Order book is strong, but these days delay is happening from the OEM side on model launches.
- Guidance of $100mn revenue in FY24 with double-digit EBITDA margin by Q4FY24 maintained. FY24 will be good for LDC in revenues and margins.

Suprajit Technology Centre (STC)

- The focus is to commercialize some innovative products and have a strong appetite of growth beyond cables.
- The response for new products is good. A few products are under testing with some customers with production expected to start in FY24.
- At present, digital clusters, electronic actuators and sensors are under production. Suprajit get some revenue out of it, scaling it up.
- Electronics plant is scaling up production with most of the products focused on the EV segment and have leading EV customers on-board.
- With new products, the content per vehicle will increase, e.g. digital instrument cluster cost around Rs 600-2,000. So, if 1 or 2 cables come down in ICE vehicle, these new products will more than offset the loss.
- Suprajit plans to bring electromechanical actuators in India from LDC, to localize the same.

Other key highlights

- Finance expenses increased (+35% QoQ to Rs104mn) due to rise in the interest rates.
- Other income declined by -36% YoY & -76% QoQ due to MTM.
- Other expenses inched-up by +38% YoY & +8% QoQ due to power cost increase in EU & the US.
- Commodities more or less is stabilized, but difficult to predict it.
- Q3FY23 is seasonally a weak quarter in domestic as well as exports. PVs and the premium end of 2Ws are doing well, while entry level 2Ws are soft.
- The growth will come from international as well as domestic markets. The management is seeing good demand traction in LDC, STC, non-automotive and automotive cables for the next few years.
- Suprajit de-risk 2W business, which now contributes 25% of the business. STC will help in further de-risking the business.
- China is out of the Covid wave and is recovering well. Europe continues to remain in uncertainty, while the US impacted due to inflationary conditions.

Outlook and Valuations

- Q3 performance was below estimates due to external factors viz. subdued exports, higher interest rates, power cost & MTM. Auto cables, Phoenix Lamps and LDC performance was remarkable, while Non-auto cables division show was poor due to slowdown in the USA. Suprajit Technical Centre (STC) to give additional wing to fly higher as new products have much higher realization & margins.

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- **Its trading at ~17x FY25 estimated EPS of Rs 21.2. Assigned multiple of 21x to FY25e EPS to arrive at a fair value of Rs 445 per share. Maintain Buy recommendation.**

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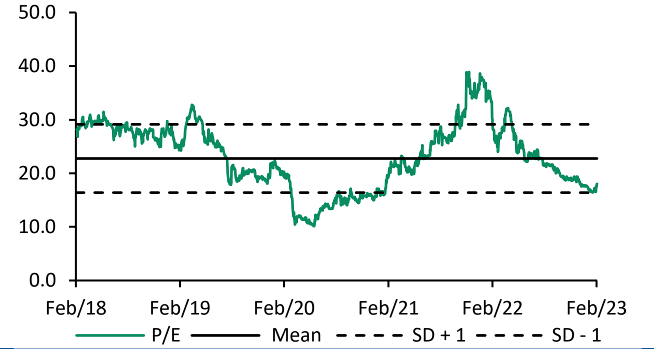
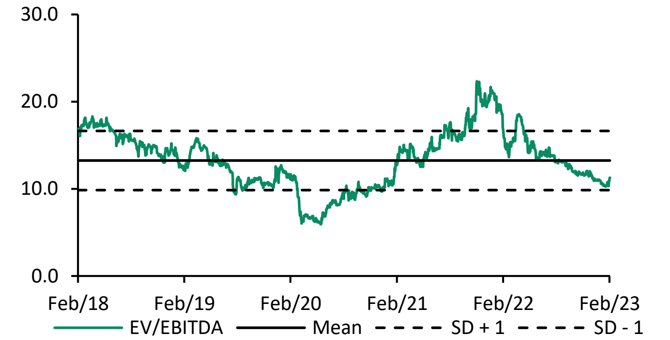
Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 2: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Fig 3: Changes in estimates

Rs mn	New estimates			Old estimates			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e
Revenue	27,622	30,513	33,385	28,329	31,947	34,777	-2.5%	-4.5%	-4.0%
Gross profit	11,104	12,541	13,788	11,388	13,130	14,363	-2.5%	-4.5%	-4.0%
Gross margin (%)	40.2	41.1	41.3	40.2	41.1	41.3	0 bps	0 bps	(0) bps
EBITDA	3,010	4,126	4,738	3,213	4,323	4,916	-6.3%	-4.6%	-3.6%
EBITDA margin (%)	10.9	13.5	14.2	11.3	13.5	14.1	(45) bps	(1) bps	6 bps
PAT	1,636	2,503	2,933	1,789	2,608	3,036	-8.6%	-4.0%	-3.4%
EPS (Rs)	12	18	21	13	19	22	-5.4%	-6.3%	-3.7%

Source: Company, SMIFS Research

Quarterly financials, operating metrics & key performance indicators

Fig 4: Quarterly Financials

Consolidated (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Sales	**5,130**	**3,616**	**4,937**	**4,793**	**5,059**	**6,452**	**7,161**	**6,921**
Raw Materials	3,013	2,001	2,836	2,911	3,039	3,847	4,336	4,080
Employee Costs	874	778	866	875	844	1,428	1,443	1,389
Other Expenditure	426	344	434	466	410	638	595	643
EBITDA	**817**	**492**	**801**	**541**	**766**	**540**	**787**	**809**
Depreciation	143	143	146	144	152	237	239	247
Interest	28	47	35	31	32	61	77	104
Other Income	122	66	152	81	68	181	217	52
Exceptional items	-	161	(45)	-	-	-	-	-
PBT	**768**	**529**	**726**	**447**	**650**	**423**	**688**	**510**
Tax	193	97	231	130	164	150	231	129
Tax rate (%)	25	18	32	29	25	35	34	25
Reported PAT	**575**	**432**	**496**	**317**	**486**	**273**	**457**	**380**
Adjusted PAT	**575**	**311**	**529**	**317**	**486**	**273**	**457**	**380**
YoY Growth (%)								
Revenue	31.9	103.8	11.4	(5.5)	(1.4)	78.4	45.0	44.4
EBITDA	48.8	NA	8.9	(37.4)	(6.3)	9.6	(1.7)	49.6
Adj. PAT	144.2	NA	10.1	(38.6)	(15.4)	(12.1)	(13.5)	19.9
QoQ Growth (%)								
Revenue	1.1	(29.5)	36.5	(2.9)	5.6	27.5	11.0	(3.3)
EBITDA	(5.4)	(39.8)	62.6	(32.5)	41.6	(29.5)	45.8	2.8
Adj. PAT	11.4	(46.0)	70.3	(40.0)	53.3	(43.8)	67.5	(16.8)
Margin (%)								
RMC/revenue (%)	58.7	55.3	57.4	60.7	60.1	59.6	60.5	58.9
Gross margin (%)	41.3	44.7	42.6	39.3	39.9	40.4	39.5	41.1
Employee cost/revenue (%)	17.0	21.5	17.5	18.3	16.7	22.1	20.2	20.1
Other expenses/revenue (%)	8.3	9.5	8.8	9.7	8.1	9.9	8.3	9.3
EBITDA margin (%)	15.9	13.6	16.2	11.3	15.1	8.4	11.0	11.7
PAT margin (%)	11.2	8.6	10.7	6.6	9.6	4.2	6.4	5.5

Source: Company, SMIFS Research Estimates

Fig 5: Key assumptions

Operating Details	FY20	FY21	FY22	FY23e	FY24e	FY25e
Auto cable division						
Revenue (Rs mn)	**9,358**	**9,751**	**10,786**	**12,515**	**13,922**	**15,343**
YoY Growth (%)	*0.4*	*4.2*	*10.6*	*16.0*	*11.2*	*10.2*
EBITDA Margin (%)	**16.3**	**15.9**	**16.3**	**17.0**	**17.1**	**17.2**
Non-Auto cable division						
Revenue (Rs mn)	**3,145**	**3,375**	**4,200**	**4,438**	**4,937**	**5,390**
YoY Growth (%)	*(7.4)*	*7.3*	*24.4*	*5.7*	*11.2*	*9.2*
EBITDA Margin (%)	**11.1**	**14.4**	**14.4**	**10.9**	**14.0**	**14.5**
Phoenix lamps division						
Revenue (Rs mn)	**3,125**	**3,283**	**3,419**	**3,715**	**4,055**	**4,384**
YoY Growth (%)	*(1.9)*	*5.1*	*4.1*	*8.7*	*9.1*	*8.1*
EBITDA Margin (%)	**9.9**	**10.2**	**7.1**	**8.9**	**11.0**	**11.2**
Light Duty Cable (LDC)						
Revenue (Rs mn)	-	-	-	**6,953**	**7,599**	**8,268**
YoY Growth (%)	-	-	-	-	*9.3*	*8.8*
EBITDA Margin (%)	-	-	-	**1.0**	**8.0**	**10.0**

Source: Company, SMIFS research estimates

Financial Statements

Income Statement

YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Revenues	**16,409**	**18,405**	**27,622**	**30,513**	**33,385**
Raw Materials	9,547	10,787	16,518	17,972	19,597
% of sales	58.2	58.6	59.8	58.9	58.7
Personnel	3,083	3,364	5,607	5,797	6,260
% of sales	18.8	18.3	20.3	19.0	18.8
Manufacturing & Other Expenses	1,411	1,655	2,487	2,618	2,790
% of sales	8.6	9.0	9.0	8.6	8.4
EBITDA	**2,367**	**2,599**	**3,010**	**4,126**	**4,738**
Other Income	336	366	606	610	613
Depreciation & Amortization	568	585	979	1,028	1,076
EBIT	**2,136**	**2,380**	**2,637**	**3,708**	**4,275**
Finance Cost	192	145	316	279	258
Core PBT	**1,943**	**2,235**	**2,321**	**3,429**	**4,017**
Exceptional Income/(Expense)	-	116	-	-	-
PBT	**1,943**	**2,352**	**2,321**	**3,429**	**4,017**
Tax-Total	516	621	685	926	1,085
Effective tax rate (%)	26.6	26.4	29.5	27.0	27.0
Reported PAT	**1,427**	**1,731**	**1,636**	**2,503**	**2,933**
Adjusted PAT	**1,427**	**1,643**	**1,636**	**2,503**	**2,933**

Source: Company, SMIFS Research Estimates

Key Ratios

YE March	FY21	FY22	FY23e	FY24e	FY25e
Growth Ratios (%)					
Net Sales	5.0	12.2	50.1	10.5	9.4
EBITDA	8.2	9.8	15.8	37.1	14.8
Net Profit	14.6	15.2	(0.4)	53.0	17.2
Margin Ratio (%)					
Gross Margin	41.8	41.4	40.2	41.1	41.3
EBITDA Margin	14.4	14.1	10.9	13.5	14.2
EBIT Margin	13.0	12.9	9.5	12.2	12.8
Core PBT Margin	11.8	12.1	8.4	11.2	12.0
PAT Margin	8.7	8.9	5.9	8.2	8.8
Return Ratios					
ROE	15.5	15.9	14.2	18.9	18.9
ROCE	12.2	12.7	11.5	14.3	15.1
Turnover Ratios (days)					
Gross Block Turnover (x)	2.2	2.3	2.6	2.3	2.4
Adjusted OCF/PAT (in %)	99	102	59	120	118
Inventory	113	111	108	108	108
Debtors	68	62	62	62	62
Creditors	88	75	70	70	70
Cash Conversion Cycle	92	99	100	100	100
Solvency ratio (x)					
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	2.0	1.3	1.0
Current ratio	1.8	2.0	1.8	2.0	2.2
Interest coverage ratio	11.1	16.4	8.3	13.3	16.6
Dividend					
DPS (Rs.)	1.8	2.0	1.9	2.9	3.4
Dividend Yield (%)	1.0	0.6	0.5	0.8	0.9
Dividend Payout (%)	17.2	16.8	15.8	15.8	15.8
Per share (Rs.)					
Basic EPS (reported)	10.2	12.5	11.8	18.1	21.2
Adjusted EPS	10.2	11.9	11.8	18.1	21.2
CEPS	14.3	16.1	18.9	25.5	29.0
BV	70.8	78.3	88.3	103.5	121.3
Valuation					
P/E	17.9	28.5	30.4	19.9	17.0
P/BV	2.6	4.3	4.1	3.5	3.0
EV/EBITDA	10.5	17.5	17.5	12.3	10.2
EV/Sales	1.5	2.5	1.9	1.7	1.5
Adj Mcap/Core PBT	11.0	18.9	20.2	13.3	10.8
Adj Mcap/Adj OCF	15.1	25.3	48.1	15.2	12.6

Source: Company, SMIFS Research Estimates

Balance Sheet

YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Sources of funds					
Capital	140	138	138	138	138
Reserves & Surplus	9,757	10,701	12,076	14,178	16,642
Shareholders' Funds	**9,897**	**10,840**	**12,214**	**14,317**	**16,780**
Total Loan Funds	**3,459**	**3,365**	**6,009**	**5,323**	**4,944**
Other liabilities	724	659	989	1,093	1,196
Total Liabilities	**14,081**	**14,864**	**19,212**	**20,733**	**22,920**
Application of funds					
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
Investments	**3,195**	**2,619**	**2,345**	**2,587**	**2,828**
Other non-current assets	**485**	**603**	**582**	**609**	**631**
Inventories	3,145	3,433	4,887	5,318	5,799
Sundry Debtors	3,320	2,972	4,721	5,215	5,706
Cash & Bank Balances	945	1,962	618	1,679	3,423
Other current Assets	351	222	333	367	402
Total Current Assets	**7,761**	**8,588**	**10,559**	**12,580**	**15,330**
Sundry Creditors	**2,476**	**1,940**	**3,168**	**3,447**	**3,758**
Other Current Liabilities	576	581	557	685	797
Total Current Liabilities	**3,052**	**2,521**	**3,724**	**4,132**	**4,555**
Net Current Assets	**4,709**	**6,067**	**6,835**	**8,448**	**10,775**
Total Assets	**14,081**	**14,864**	**19,212**	**20,733**	**22,920**

Source: Company, SMIFS Research Estimates

Cash Flow

YE March (Rs mn)	FY21	FY22	FY23e	FY24e	FY25e
Operating profit before WC changes	**2,519**	**2,832**	**3,615**	**4,734**	**5,350**
Net chg in working capital	(427)	(432)	(1,632)	(525)	(536)
Income taxes paid	(482)	(584)	(694)	(939)	(1,100)
Cash flow from operating activities (a)	**1,610**	**1,816**	**1,289**	**3,270**	**3,715**
Adjusted OCF	1,418	1,671	972	2,992	3,457
Capital expenditure	(251)	(525)	(4,853)	(666)	(674)
Adjusted FCF	1,359	1,291	(3,565)	2,604	3,041
Cash flow from investing activities (b)	**(598)**	**365**	**(4,739)**	**(857)**	**(877)**
Debt issuance/(repayment)	(512)	(43)	2,643	(686)	(379)
Dividend Paid	(104)	(275)	(262)	(401)	(470)
Interest and Lease Expenses	(245)	(206)	(316)	(279)	(258)
Cash flow from financing activities (c)	**(860)**	**(1,115)**	**2,065**	**(1,365)**	**(1,107)**
Net chg in cash (a+b+c)	**152**	**1,066**	**(1,385)**	**1,049**	**1,731**

Source: Company, SMIFS Research Estimates

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