

Suprajit Engineering Ltd.



December 20, 2018

Suprajit Engineering Ltd.

A Well-diversified Suprajit is a Synonym of Consistency

Suprajit Engineering, headquartered in Bangalore was established in the year 1985 is one of the global leader in manufacturing of two-wheeler automotive cables. It manufactures cables across all the segments of automotive industry and gradually gaining market share. We initiate a coverage on Suprajit Engineering Ltd (SEL) recommend a 'Strong Buy' with a fair value of INR 280, implying a 22.9% upside potential from the current levels. Our view stems on the fact that a) SEL is quick in acquiring OEMs in low penetrated 4Ws segment. b) Increasing touch base in the gigantic aftermarket. c) Expanding into newer segments in non-automotive cables. d) Strategically looking for acquisitions into LEDs & other segments. e) Growing in extensive export market.

King-sized Opportunity in Aftermarket and Exports

Suprajit is present in ~20,000 touch points across India and we believe the opportunity size of the aftermarket is as big as OEMs. Post GST, the management too has observed a gradual shift from unorganised to organised players. The company looks serious in expanding its base and the margins are higher too in the aftermarket vis-à-vis OEMs. On the exports front, post acquisition of the Wescon Controls, Suprajit can possibly try to cross-sell its products to Wescon's clients, where the market is gigantic. The company aims to double the size of automotive exports by FY21E vs. FY18.

Prospects of Entering into LEDs

The company in the past has successfully acquired five companies in total and continues to seek newer possibilities for overseas as well as domestic growth in Cables/Lamps. Suprajit is among the leaders in manufacturing of Halogen bulbs and there are enormous possibilities for the company to enter into manufacturing of LED bulbs, which we believe is the trigger point for the growth ahead.

Increasing Share in Automotive Cable Business

Suprajit is the market leader in 2W cable manufacturing with ~70% market share. It's focus is now to increase the market share in 4Ws especially PVs, where the penetration level is low and the size of the pool is large. It's market share in 4Ws increased from 20% five years ago to 35% in FY18 and we believe there are high chances of the PV leader to get on client board in the near future. This will substantially improve the market share of Suprajit. Additionally, the number of cables post BS6 will increase in all the vehicles.

Expanding into Newer Segments in Non-Automotive Cables

In FY02, Suprajit was not present in non-automotive, however, the revenue contribution from it has increased to 16% in FY17 and 21% in FY18. The company manufactures cables for tractors, construction equipment machineries, etc., and recently started manufacturing a cable for washing machines. We believe the company has options to gradually enter into newer segments and acquire more customers. Here, not only the volume growth will be huge, but also margins are 5% higher than 2W cables.

Scarcity Premium: Suprajit Engineering is the only large automotive cable manufacturer listed on the exchange and hence, we believe once recognised by the market participants, it will continue to get the scarcity premium. Its major competitors are from China and South Korea.

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	1,203	1,431	1,608	1,894	2,134
Growth (%)	26.3%	19.0%	12.4%	17.8%	12.7%
EBITDA	202	237	241	297	345
Growth (%)	30.9%	17.1%	2.0%	23.0%	16.5%
EBITDA Margin (%)	16.8%	16.5%	15.0%	15.7%	16.2%
PAT	114	138	125	159	191
Growth (%)	41.6%	21.8%	-9.6%	27.4%	19.6%
EPS (INR)	8.1	9.9	8.9	11.4	13.6
P/E (x)	23.2	28.4	25.5	20.0	16.7
EV/EBITDA (x)	11.4	15.9	12.7	10.7	9.6

Source: Company, NSPL Research

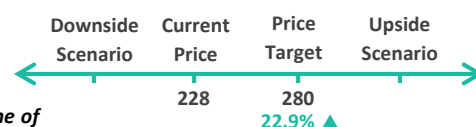
* Read last page for disclaimer & rating rationale

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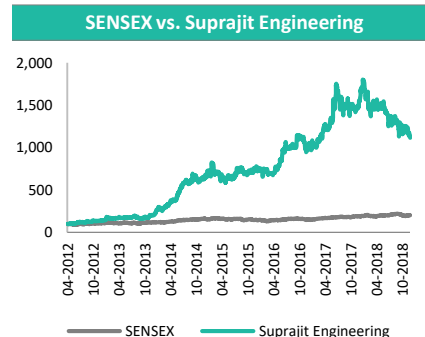
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STRONG BUY*



Market Details	
Industry	Auto Ancillaries
Sensex	36,484
Nifty	10,967
Eq. Cap. (INR Crores)	14
Face Value (INR)	1
52-w H/L	349/198
Market Cap (INR Crores)	3,190

Valuation Data	FY19E	FY20E	FY21E
P/E (x)	25.5	20.0	16.7
EV/EBITDA (x)	12.7	10.7	9.6



	Shareholding Pattern (in %)		
	Sep-17	Mar-18	Sep-18
Promoters	44%	44%	44%
FIIIs	5%	4%	6%
DIIIs	10%	12%	11%
Retail	41%	40%	39%
Total	100%	100%	100%



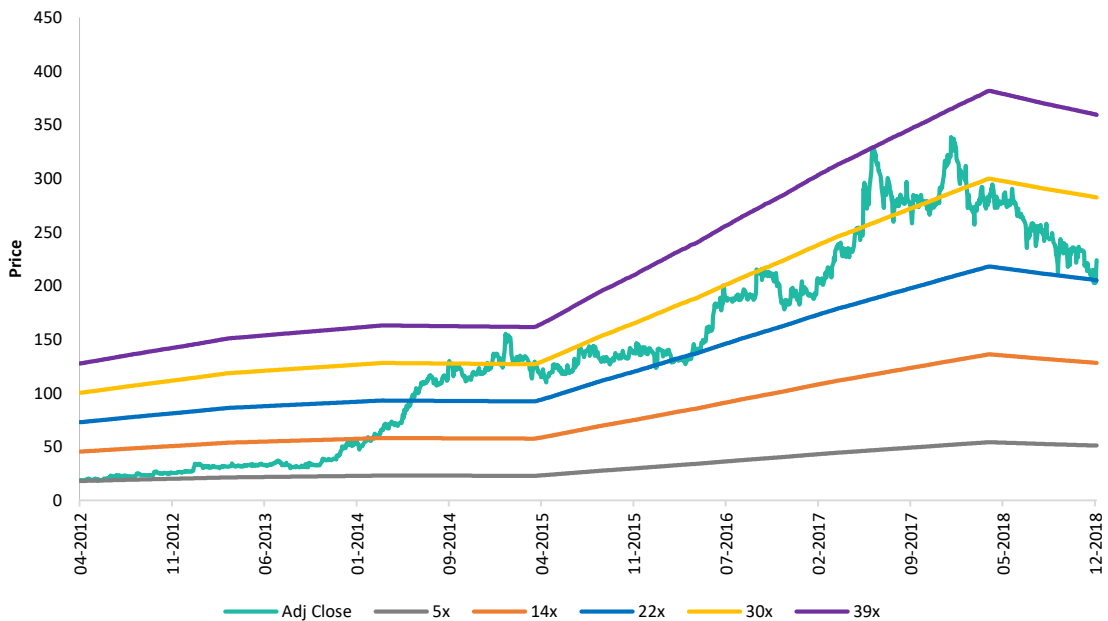
Trading at an Eye-Catching Valuations

Based on the investment rationales discussed, we strongly believe in the company's business model and its potential growth in the medium to long term on account of its competitive positioning.

We trust that the company is very ethical, well-diversified, a consistent performer and all this along with the stability in terms of performance should continue. Currently, the company is trading attractively at a P/E of 16.7x and EV/EBITDA of 9.6x FY21E.

We recommend a Strong Buy on Suprajit Engineering with a average fair value of INR 280 per share, valuing the company with P/E and EV/EBITDA Methodology. In the past three years, it use to trade at a forward P/E of ~20x and EV/EBITDA of ~11.5x. We have assigned similar multiples on account of huge potential and growth opportunities.

P/E Band Chart



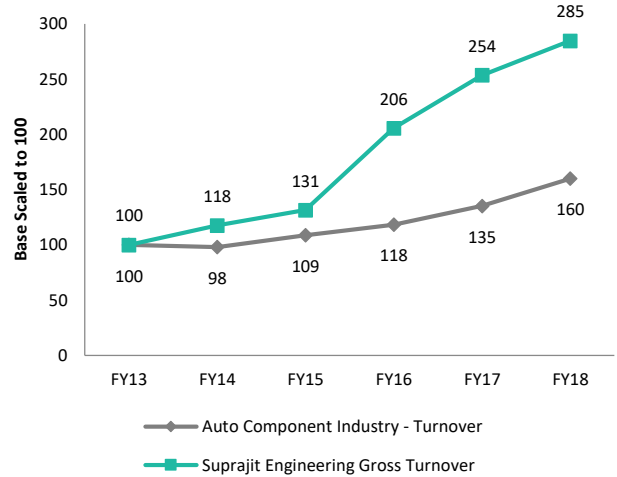
Source: Company, NSPL Research



Robust Past Performance

- Suprajit Engineering has shown a robust performance in the past 10 years. Its top line jumped by 6.4x, EBITDA by 8.0x and bottom line by 15.4x. In addition, the company maintained an average RoE of 27.6%, RoCE of 28.8% and D/E at 0.4x levels.
- Globally, the company is among the global leaders in manufacturing of cables and halogen lamps. Also, Suprajit's market share always climbed higher viz. the share in 2Ws improved from ~60% five years ago to ~70% in FY18, similarly, for the same period, the share in 4Ws improved from ~20% to ~35%.
- It is putting all its energy to keep increasing the number of customers in 4Ws, non-automotive and expanding its reach in the aftermarket.
- It has maintained its leadership position in the automotive cables, halogen lamps in domestic and is a preferred supplier to major OEMs.

Auto Component Industry vs. Suprajit Engineering



Well Diversified Company

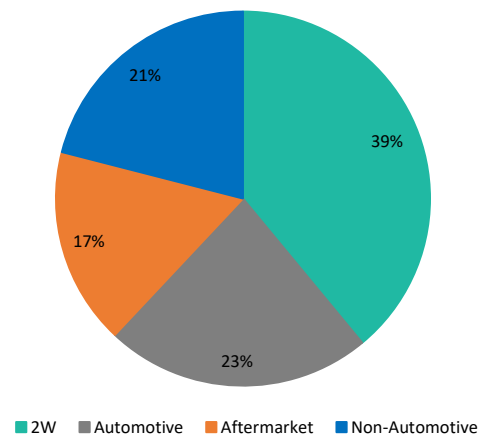
In the past, the company was heavily dependent on 2W cables (96.5% in FY02), however, now it is well distributed among 2Ws (36%), 4Ws (22%), Aftermarket (21%) and Non-Automotive Cables (21%). Moreover, in FY02, the revenues from domestic was 99%, while in FY18, it's well diversified between Domestic:Exports in the ratio of ~60:40. In addition, Suprajit has created and sustained three major brands viz. Suprajit (automotive cables), Wescon (non-automotive cables) and Phoenix (halogen bulbs).

Category-wise	FY02	FY17	FY18
Automotive	2.5%	22.0%	22.0%
2W	96.5%	36.0%	36.0%
Aftermarket	1.0%	26.0%	21.0%
Non-automotive	0.0%	16.0%	21.0%
Geography-wise	FY02	FY17	FY18
Domestic	99.0%	60.0%	59.0%
Exports	1.0%	40.0%	41.0%

Suprajit's Diversification:

- Multiple Segments:** The company has diversified from a single segment (two wheeler) to multiple segments (3Ws, 4Ws, CVs, Non-Auto, Exports, Aftermarket, etc.)
- Multiple Customers:** It started with one customer (TVS Motors), however, now almost has all the players in automotive, non-automotive as well as under lamps division.
- Multiple Products:** It started with Mechanical Control Cables. Over the time, Suprajit has added multi-products in its kitty viz. Mechanical Control Cables, Speedometers, Other auto Components, Cable based assemblies and Automotive halogen lamps.
- Multiple Location:** Suprajit Engineering started from Karnataka & has gradually expanded in all the states of India and now exports to 50+ countries globally.
- Multiple Brands:** The company has created and nurtured valuable brands under its kitty viz. *Suprajit, Wescon Controls, Phoenix, Trifa and Luxlite.*

FY18 Segment-wise Exports Split



Source: Company, NSPL Research



Strong Visibility of Next Leg of Growth – to be driven by all the segments

- In the automotive segment, the company has improved its market share from ~20% five years ago to ~35% in FY18** and this increase was majorly contributed by adding new clients in its kitty. The management is very enthusiastic about it and believe the leader in the domestic PVs to come on board in the near future, which would improve its market share substantially. Moreover, post acquisition of the Wescon Control LLC, Suprajit has got an access to the global customers, where it has enormous potential. More importantly, the number of cables required in a car is ~25 vis-à-vis ~5 in 2Ws. Hence, the opportunity is large in 4Ws. Moreover, the margins in 4W cable is higher by 2-4% as compared to 2W cable.
- In the non-automotive space, the potential opportunity is enormous.** At present the company serves majorly to tractors, construction machineries manufacturer and entered into the manufacturing of cables for washing machines. We believe the options are open for the company to enter into newer segments and think this will not only provide a stable set of growth in the medium term, but, will also aid in reducing the volatility from the automotive industry. The non-automotive division contributed nil in FY02, which increased to 16% in FY17 and 21% in FY18 to the top line.
- Suprajit is the strong market leader in the manufacturing of 2W cables in the world.** The company is a preferred supplier to almost all the OEMs in domestic as well as overseas. The company with its diversification strategy has reduced the dependence on 2Ws from 96.5% in FY02 to 36% in FY18. Post BS6, the number of cable requirement will increase and in addition to it, the global players continue to enter into India. All this along with higher than the industry growth will eventually aid Suprajit in improving its market share further.
- King-sized Aftermarket:** The aftermarket division supplies spare parts through trade & mechanic repair shops and alone in India has ~20,000 touch points. The management sees huge opportunity in aftermarket. Post GST, Suprajit is getting benefits as there is a gradual shift observed from unorganised to organised players. The company is getting benefitted as it has huge touch base across India. Also, the margins too are higher as compared to direct sales to OEMs. The management looks serious in expanding the reach and growing this division.
- Enormous Opportunities in Exports:** The company is also growing and expanding outside India, where the opportunity size is enormous. Post Wescon's acquisition, it has access to the global customers along with plants in a few countries. The company's aim is to double the size of automotive exports by FY21E vs. FY18.
- Strategic Opportunities Under Lamps Division:** Suprajit is one of the top five manufacturer of halogen lamps globally and we believe this will be a trigger point if the company strategically enters into manufacturing of LEDs. Although the LED penetration is in the low double digit, but the market is gradually moving towards it. The global competition in Halogen is from Chinese players, which makes cheaper products and from South Korean players, which makes quality products with premium pricing. Suprajit strategy is to make a cost competitive product with a reasonable price, hence, the company should benefit.

Expectation of Superior Financial Performance

- Suprajit Engineering in the past 10 years has performed very well and the performance remained robust.** The Top-line, EBITDA, Bottom-line in the past 10 years grew by 23%, 26% and 35% respectively. We have conservatively projected its Top-line, EBITDA, Bottom-line to grow by 14%, 11% and 11% respectively FY18-FY21E. The growth in the coming years will be driven by all three major segments viz. Automotive Cables, Non-Automotive Cables and Lamps Division. On one side, in Automotive segment, it is growing its market share faster led by addition of 4W OEMs. Similarly, under non-automotive, the company not only entering into newer segments, but also, adding newer clients. Moreover, its Lamps division is not left behind, the management is expanding quickly in the overseas market and moreover, looking for strategic acquisition in the fast growing LED lights. All this would help company to improve its top line evenly across the segments.
- The automotive industry is going through its toughest time, majorly led by depressed consumer sentiments on account of** a) rising fuel prices b) increase in the vehicle prices c) higher interest rates and d) Insurance bouncer, which led to sudden price rise. Despite of all this, Suprajit Engineering has grown its top line in the low teens in H1FY19 and we expect it to continue to post low double digit growth in FY19E. The growth in FY19E will be majorly led by its Automotive and Non-Automotive cable division, as Suprajit has been successful in adding new clients in these segments. The revenues in FY20E to boost higher majorly led by pre-buying before the implementation of BS6 and the expectation of a stable macro-economic parameters.
- On the other side, we expect the EBITDA Margins to impact a little in FY19E** majorly on account of increase in its core raw material costs and rise in the minimum wages. The margins have always remain on an average at 16% in the past 10 years, as Suprajit has the ability of being the cost competitive and the lowest cost producer. The margins to gradually improve from FY20E onwards due to a) Operating leverage benefits b) Increasing share of 4Ws, where realizations are higher c) Expanding its aftermarket business, where margins are higher than OEMs and d) Rigorous cost rationalization measures to reduce other expenses. Hence, expect the margins to climb higher gradually from 14.7% in FY19E to 15.4% in FY21E.
- The bottom-line to remain little lower as compared to the last year,** however, we are optimistic about the company's business model and expect it to bounce back sharply in FY20E and FY21E. This will be led by faster growth in the top-line, better operational performance and gradually moving towards net cash in the coming years, which will reduce its finance costs.



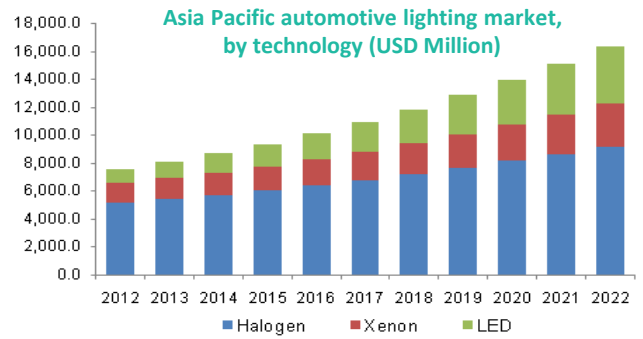
LED as well as Halogen to Continue to Shine..!

The Indian Automotive Lighting market is estimated to grow at a CAGR of 12%+ by FY23. This is majorly on account of growing awareness about vehicle safety standards and regulations. In addition, it is also considered as an advanced feature in vehicle lighting systems. The LED market share is <10%, however, the industry is gradually moving towards LED.

Based on our research & understanding, we are quite confident that the halogen business will be there in the foreseeable years, while the LEDs, which were present in the higher end cars are gradually moving towards mid-size cars too. This is possibly due to a reduction in the cost of LEDs, longer life and low energy consumption. Suprajit Engineering is among the leaders in halogen bulbs and entering into LED will be a key trigger point for the future growth.

Globally, the key players in lighting market are Osram GmbH, Hella KGaA Hueck & Co., Valeo SA, Stanley Electric, Magneti Marelli, Koito Manufacturing Co. Ltd., and GE.

We think it would be right if the company enters into LED, as the market is evolving rapidly. The few models of select OEMs in India have already jumped to this technology & Suprajit's management also looks very serious in looking at the options on the table.



King-sized Aftermarket

The aftermarket is very fragmented as there are many small unorganised players in the market. However, post GST, it's gradually moving from unorganised to organised market and we believe Suprajit is the largest beneficiary of this move on account of the wider base of ~20,000 touch points in the domestic. Additionally, we have calculated the vast size of the aftermarket considering the number of registered vehicles, number of cables gets replaced, the average replacement cycle and average cost per cable. **The details are elaborated in the table.**

Calculation of Aftermarket Size	
No. of Registered Vehicles (INR Crores)	25
No. of Cables Gets Replaced (Nos)	5
Average Life of a Cable (Years)	5
Average Cost of a Cable (INR)	125
Size of the Aftermarket (INR Crores)	~3,125

Source: Company, NSPL Research

Global Automotive Cable Industry

The vehicle driver can control various functions from his seat with the help of automotive control cables. These cables are required mandatorily, it's the fastest growing spares and has a enormous potential in the replacement market too. There is a immense potential in the Global automotive cable industry and expect to register a steady set of 4.1% CAGR FY18-FY28E. This will be driven by increasing growth opportunities in the automobiles worldwide especially from Asia Pacific and African regions.

The industry has multiple small number of players due to lower cost of setup and better return on investments. The Asia Pacific region contributes highest revenue share of ~49% in 2018 driven by rising demand from China and India. This is led by rising per capita income, improvement in the infrastructure, increase in the women commuters etc. resulted in increase in sales. We expect these regions to continue to drive the global demand in the coming years. The European and the US to follow Asia Pacific in terms of sales.

We believe that the automotive control cables are the most frequently used spares in the vehicles due to its cost advantage and expects the demand to continue to grow steadily for multi-years, unless any technology disruption arises.



STRENGTHS

In the past, the company was heavily dependent on 2W cables (96.5% in FY02), however, now it is well distributed among 2Ws (36%), 4Ws (22%), Aftermarket (21%) and Non-Automotive Cables (21%). In addition, in FY02, the revenues from domestic was 99% and in FY18, the Domestic:Exports were evenly distributed in the ratio of ~60:40.

Suprajit is among the leaders in manufacturing of automotive cables and halogen bulbs. The company is a dominant supplier in the domestic automotive industry and is a preferred supplier to both domestic as well as overseas customers. It exports to 50+ countries and has a strong presence in non-automotive cables.

Over 30 years of expertise in cables and has a Strong relationship with OEMs.

Suprajit Engineering is strategically placed its manufacturing locations near to the automotive hubs in India, which resulted in efficient supply chain distribution and lower logistics cost.

The company manufactures in a very large scale and hence, it gives this mass manufacturer a competitive cost advantage. The company has the ability to setup modular capacities at low capex for dynamic growth.

No customer contributes more than 10% in the topline and company has excellent rapport.

Suprajit has good distribution reach with 20,000 touch points.

OPPORTUNITIES

The Government has mandated to shift to BS6 norms by April 2020, which will likely to improve the number of cables in a vehicle.

The OEMs product life cycle is getting shorter, which could provide cable manufacturers an added advantage as there will always be a requirement for a newer cables. This will provide a continued growth for opportunities for the leader like Suprajit.

Due to regulatory requirements, technology changes, high costs, etc. the global OEMs prefer to outsource the component manufacturing to low cost countries like India. Most major automobile manufacturers have set up production bases in India.

The company is expanding its reach to secure good business in the huge aftermarket division. Moreover, there is a good potential to grow its export business.

There is a huge opportunity in the non-automotive space, where mechanical cables are required.

The market is gradually evolving into LED bulbs and we expect Suprajit to crack a deal (organic/inorganic) sooner or later in this strategic space.

Suprajit Engineering – SWOT Analysis

WEAKNESSES

The Exports contribute about 41% of the revenues. Any slowdown in the major economies can impact its financials.

Any quality or delivery related issues can weaken the rapport with the customers.

Suprajit Engineering is heavily dependent on the key raw materials viz. Steel, PVC, Rubber, Plastic and Brass. The increase in the volatility of these key materials can have an impact on its financials.

THREATS

The company's growth is dependent on the Automotive Industry, which in turn depends upon the macro-economic stability. Any decline in the growth of the automotive industry can impact the performance of Suprajit Engineering. However, we believe, the long term outlook for the automotive industry remains robust with rising income levels, strong macro-economic fundamentals and easy availability of finance.

Any technological disruption in the cable industry can slow down the financials of Suprajit.

The company keeps looking for inorganic opportunities, hence, any failed acquisition can imbalance the financial equations.



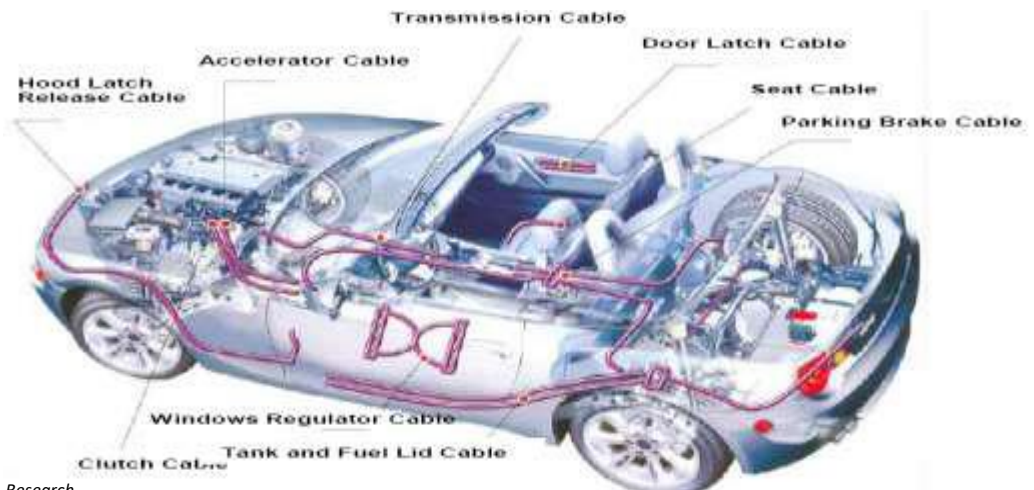
About Suprajit Engineering

Suprajit Engineering, headquartered in Bangalore was established in the year 1985 and is a niche player into manufacturing of Mechanical Control Cables. The company is the largest cable manufacturer domestically and stands number 1 in the two-wheeler cable market. It is among the global leaders in manufacturing of automotive cables and halogen bulbs; with exports to 50+ countries. Suprajit is the dominant supplier domestically and is one of the preferred to both domestic and overseas clients. The company has created & nurtured its brands viz. *Suprajit, Wescon and Phoenix*.

To aim for diversification, it acquired Wescon Controls Inc, USA in 2015, which is a maker of Non-Automotive cables. In addition, the company has acquired Phoenix Lamps Ltd in 2014 to enter into Automotive Lighting business. Currently, the company is well diversified from a single product, single customer, single segment, single brand, single location company to a multi-product, multi-business, multi-customer, multi-brand, multi-location global company.

The company manufactures an extensive range of cables and halogen lamps. It also manufactures speedometers for select clients.

- Park Brake Cables
- Clutch Cables
- Starter Cables
- Throttle Cables
- Door Latch Cables
- Push-Pull Cables
- Mirror Cables
- Tail Gate Cables
- Gear Shifter Cables
- Tyre Lifting Cables
- Fuel Filler Cables
- Hood Lock & Release Cables
- Window Regulator Cables
- Cables for Seat Belts
- Seat Belt & Recliners Cables
- Speedometer & Tachometer Cables
- Seat Lock Cables
- Engine Stop Cables
- Idle Cable Assembly
- Flexible Drive Assembly, etc



Source: Company, NSPL Research



The company has three major business segments viz.

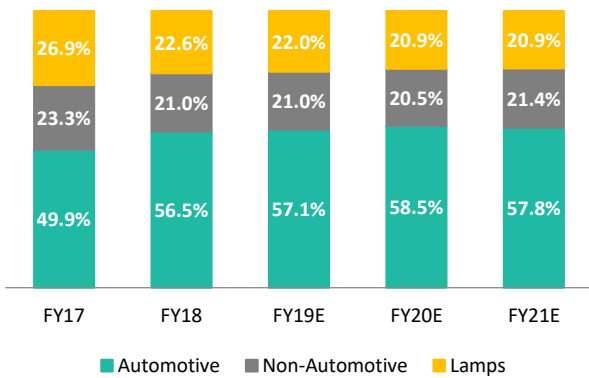
- a) **SUPRAJIT:** Manufacturing of automotive cables.
- b) **WESCON:** Manufacturing of non-automotive cables.
- c) **PHOENIX:** Manufacturing of Halogen Lamps.

The revenue mix of Cables:Lamps in FY18 is close to 77:23 and more or less, we expect the mix to remain similar in the medium term. We believe on one hand, the company is expanding, & keeps adding customers in 4Ws & non-automotive and similarly, on the lamps division, the company is looking various options on the table including a strategic acquisition of manufacturing of LEDs.

Suprajit Engineering is among the global leaders in manufacturing of automotive cables and halogen lamps. It is the one of the world's largest manufacturer of 2W cables and is a dominant & preferred supplier in domestic as well as overseas OEMs. Moreover, it exports to 50+ countries.



Segmentwise - Net Revenues Breakup (%)



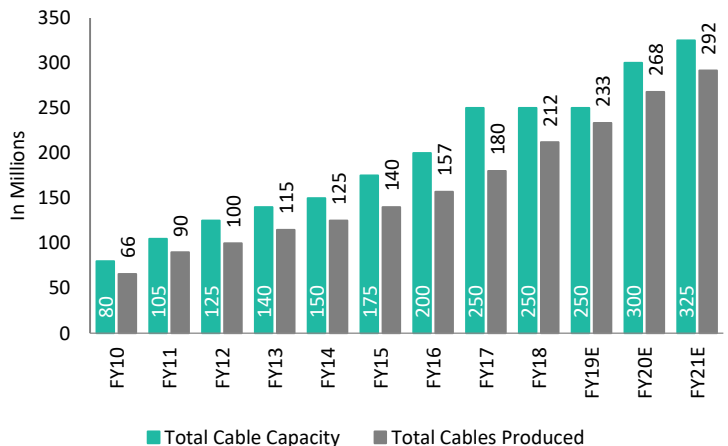
- Suprajit Engineering division** with a 30 years of experience mainly is in manufacturing of automotive cables and has 14 plants in India. It also has a tech centre in UK.
- The Phoenix Lamps division** with over 25 years of experience is into manufacturing of halogen lamps and has two sub-brands, which is *Trifa* and *Luxlite*. Phoenix has three plants in India and two each in Germany & Luxembourg. Suprajit acquired Phoenix Lamps division in May 2015, however, merged with the company in FY18.
- Wescon Controls LLC** has more than 70 years of experience in manufacturing of non-automotive cables and controls. It has a plant in the USA and another one in Mexico. Suprajit acquired Wescon Controls LLC in FY17.

Suprajit will spend INR 100 crores in the next two financial year to increase its capacity from 250mn to 300mn by FY20. The company's Lamps capacity was 87 millions in FY18 and has produced 62 millions. The capacity expansion is planned considering increased utilisation and requirements for the next 2-3 years.

It has 17 plants in India and one each in the US, UK and Mexico.

The company manufactures in a very large scale and hence, it gives this mass manufacturer a competitive cost advantage. The company has the ability to setup modular capacities at low capex for dynamic growth.

Suprajit Engineering - Cable Capacities



Source: Company, NSPL Research



Suprajit is a cable supplier to a wide range of global and domestic automotive customers. The company is one of the world leader in manufacturing of 2W cables and is a dominant & preferred supplier to almost all the OEMs in India as well as Overseas. Over the years, it has kept on increasing its market share in 4Ws mainly by adding new OEMs.

Customers - Automotive



The company is a leader in 2Ws with ~70%+ market share and supplies to almost all the leading global and domestic two wheeler manufacturers. Under non-automotive division, Suprajit supplies specialist cables to many leading global & domestic customers. We believe the opportunity in non-automotive is immeasurable, as Suprajit can possibly think of entering in the future into manufacturing of cables required in Aircrafts, Consumer Durable Products and many more segments where mechanical cables are required.

Customers – Two Wheelers

Customers – Non Automotive



Source: Company, NSPL Research



Suprajit Engineering - History

1985

- Commencement of Operations

1985-1995

- Started two cable plants in Bangalore

1996-2005

- Listing of shares in NSE & BSE.
- India's largest cable maker.
- Acquisition of Shah Concabs – 4W cable competitor.
- Started plants in Bangalore, Manesar and Chakan.

2006-2010

- New plants in Pantnagar, Haridwar and Manesar.
- 100% EOU for non-automotive cables in Bangalore.
- Best Enterprise of the State Award by Karnataka State.
- Twin Awards by CNBC/ICICI/CRISIL – SME of the year & Auto Ancillary of the year.
- Acquisition of CTP Gills Cables, one of the oldest cable companies with marquee global customers – now renamed as Suprajit Europe.

2011-2018

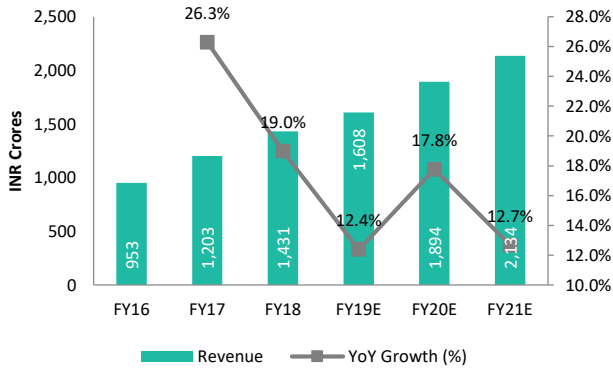
- Consolidating position as established global mechanical cable maker; diversifying and de-risking revenue profile.
- New plant at SAL, Bangalore and Pathredi.
- Acquisition of Speedo cable business (4W business) of Pricol.
- Acquisition of Phoenix Lamps Ltd.
- Acquisition of Wescon Controls, Wichita, USA.
- Launched two new plants in Chennai and Sanand.
- Launched capex of INR 100 crores to expand cable capacity to 300mn with two new plants.

Source: Company, NSPL Research

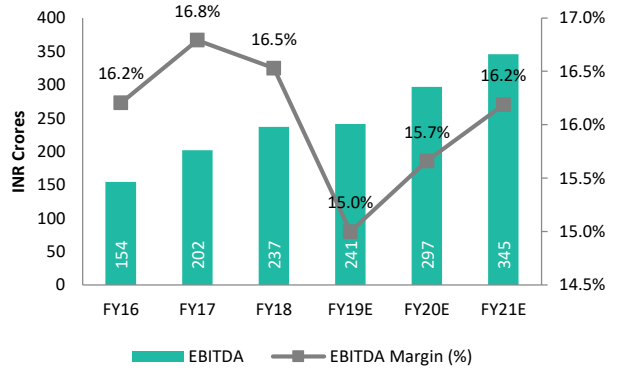


Suprajit Engineering - Story in Charts

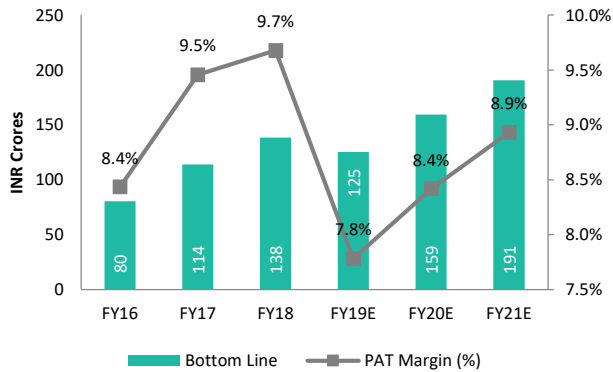
Continues Double Digit Journey..!



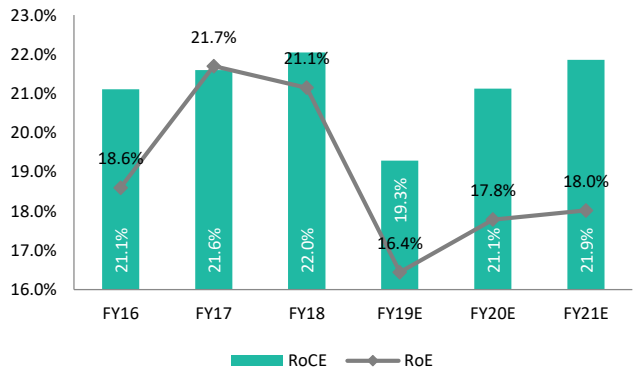
With Premium Margin..!



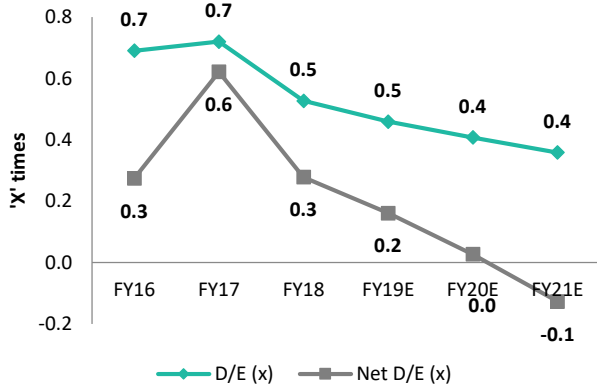
Bottom Line Performance to Remain Robust



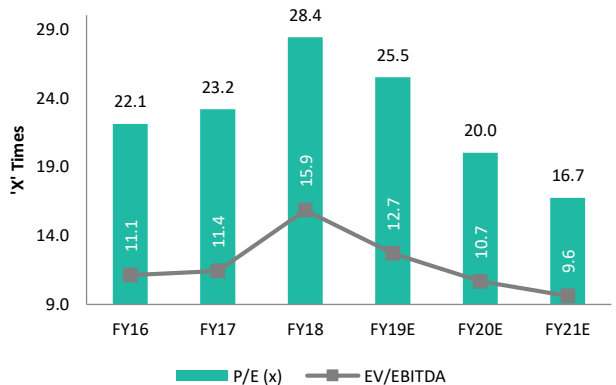
& Return Ratios to Remain Healthy..!



On the Way to Become Net Cash..!



Eye Catching Valuations..!



Source: Company, NSPL Research



Qualified and Experienced Management Team

Name	Designation
Mr. K. Ajith Kumar Rai	Chairman & MD
Mr. Mohan N S	CEO - Suprajit Group
Mr. Medappa Gowda J	CFO - Suprajit Group
Mr. Narayan Shankar K	COO - Suprajit Domestic Cable Division
Mr. Peter Greensmith	MD - Suprajit Europe Ltd
Mr. Akhilesh Goel	COO - Phoenix Lamps Division
Mr. Frank Klinkert	Luxlite Lamps SARL, Luxembourg
Ms. Mary Gentszsch	MD - Trifa Lamps Germany GmbH
Mr. Steve Fricker	CFO - SENA & Wescon Controls LLC
Mr. Mike Bright	CEO & President - SENA & Wescon Controls LLC
Mr. Shankar S	Vice President (HR) - Suprajit Group
Mr. Praveen Rao	Vice President - Sales & Marketing - Suprajit Group
Mr. Akhilesh Rai	Chief Strategy Officer - Suprajit Group
Mr. Ashutosh Rai	Head - Suprajit Tech Center - Suprajit Group

Mr. K. Ajith Kumar Rai

Chairman & Managing Director

Mr. K. Ajith Kumar Rai is a Non-Independent Executive Chairman of the Board and Managing Director of Suprajit Engineering Limited. He holds a Bachelor Degree in Mechanical Engineering from the University of Mysore and Masters Degree in Industrial Engineering from the Technical University of Nova Scotia, Canada. Mr. Rai served as the Chief Executive Officer of Suprajit Engineering Limited until February 13, 2017. He serves as the Managing Director of Suprajit Engineering Ltd., served as Research & Teaching Assistant, Technical University of Nova Scotia, Canada. Mr. Rai served as the Chief Promoter of Suprajit Engineering. He has been the Chairman of Phoenix Lamps Limited since June 2015. He has been Non-Executive Chairman of Phoenix Lamps Limited since June 18, 2015. He has been the Chairman of Suprajit Engineering Ltd. since January 2011 and served as its Vice Chairman until January 2011.

Mr. Mohan N S

CEO – Suprajit Group

Mr. Mohan Srinivasan Nagamangala, B.E (Mechanical), ICWA, has been the Chief Executive Officer of the Phoenix Lamps Limited since June 2015. Mr. Nagamangala has been the Chief Executive Officer of Suprajit Engineering Limited since February 13, 2017 and served as its President since December 5, 2013 until February 13, 2017. Mr. Nagamangala has over 28 years of experience of working in India and abroad. 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% EOU's. 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 the Institute of Cost and Works Accountants and holds a Diploma in Management.

Mr. Medappa Gowda J

CFO – Suprajit Group

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

Mr. Akhilesh Goel

COO – Phoenix Lamps Division

Mr. Akhilesh Kumar Goel serves as Chief Operating Officer of Phoenix Lamps Limited since October 2014. Mr. Goel has more than 20 years of experience. He holds BSc, B.E., and M.Sc Engg. Mr. Goel has served in various capacities Assistant Manager in Hero Motors Ltd; Assistant GM in Tata Cummins Ltd; Plant Head in Schneider Electric India; Unit Director in Areva T & D Ltd; Plant Director in Philips Electronics India Ltd; and Cluster Head in Auto Components.

Mr. Steve Fricker

CFO & Interim CEO – SENA & Wescon Controls LLC

Steve Fricker is a Interim CEO and Chief Financial Officer and Senior Executive of Wescon.

Source: Company, Reuters, Bloomberg & NSPL Research



Risks:

- **Increase in the Raw Material Prices:** Suprajit Engineering is heavily dependent on the key raw materials viz. Steel, PVC, Rubber, Plastic and Brass. The increase in the volatility of these key materials can have an impact on its financials. The sudden and continuous increase in the commodities and major raw material prices can bring down its overall margins. Although, the company has some pass through clause with its major customers.
- **The On-going Trade War** between the major economies can disrupt the global automotive demand and in-turn impact the financials of Suprajit Engineering. The export contributes about ~40% in the top line. This will be offset by the pickup in the aftermarket division.
- **Quality Compromise:** To reduce quality risk, skilled workforce has provided job skill enhancement training, but, still quality or delivery related issues can weaken the rapport with the customers.
- **Competition:** There is no major listed competitor, hence the company will continue to get the scarcity premium. To deal with the unlisted & foreign competition, the company undertakes continuous R&D activities and develops low priced products with the quality of global standards.
- **Technology Obsolescence:** Any technological disruption in the control cables can be seen as a threat. However, we believe that the cables are cost effective in a car and don't see any replacement of it.
- **The Company's growth is dependent on the Automotive Industry**, which in turn depends upon the macro-economic stability. Any decline in the growth of the automotive industry can impact the performance of Suprajit Engineering. However, we believe, the long term outlook for the automotive industry remains robust with rising income levels, strong macro-economic fundamentals and easy availability of finance.
- **Unsuccessful Acquisition:** The company keeps looking for inorganic acquisitions, hence, any failed target can imbalance the financial equations.

Peer Companies

Auto Ancillaries Companies (INR Crores)	CMP	Market Cap*	Net Revenues			EBITDA Margin (%)			PAT			RoE (%)			RoCE (%)			P/E (x)			EV/EBITDA (x)		
			FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Suprajit Engineering	228	3,190	1,431	1,608	1,894	16.5%	15.0%	15.7%	138	125	159	21.1%	16.4%	17.8%	22.0%	19.3%	21.1%	28.4	25.5	20.0	15.9	12.7	10.7
Minda Industries	332	8,702	4,471	5,430	6,552	11.9%	12.3%	12.9%	331	353	463	20.6%	18.5%	20.2%	18.2%	17.9%	19.4%	25.0	26.2	19.9	13.7	12.1	9.9
Jamna Auto	63	2,508	1,738	2,096	2,428	13.7%	13.8%	14.5%	125	161	200	33.1%	33.9%	33.9%	31.3%	30.1%	29.6%	20.3	15.7	12.6	14.2	11.7	9.5
Lumax Industries	1,720	1,608	1,650	2,035	2,358	8.2%	8.2%	9.0%	71	84	116	21.3%	21.4%	24.8%	19.5%	21.7%	27.3%	22.5	19.1	13.9	11.8	9.4	7.3
Motherson Sumi	172	54,313	56,293	67,381	81,130	9.1%	10.9%	12.1%	1,597	2,530	3,566	19.5%	24.8%	28.9%	12.2%	17.0%	21.1%	21.0	14.3	10.2	14.3	9.8	6.9
Bosch	19,628	59,905	11,690	13,437	15,061	17.9%	19.0%	19.0%	1,371	1,812	2,019	14.4%	16.4%	16.3%	21.4%	24.4%	24.3%	43.7	33.1	29.7	27.0	21.9	19.2
Bharat Forge	521	24,274	8,358	9,836	10,597	20.6%	21.5%	21.0%	763	1,140	1,208	19.3%	22.5%	20.4%	20.2%	22.5%	21.9%	28.3	21.3	20.1	14.8	11.9	11.0

*As on 19th Dec 2018

Source: Company, NSPL Research



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	1,203	1,431	1,608	1,894	2,134
COGS	690	801	916	1,074	1,210
Employee Expenses	198	257	304	355	398
Other Expenses	113	137	148	168	181
EBITDA	202	237	241	297	345
D&A	27	37	45	50	53
Other income	20	21	18	20	22
EBIT	195	221	214	267	314
Interest Expense	29	27	27	29	30
PBT	166	193	187	238	284
Exceptional Items	1	0	0	0	0
PBT (Including exceptional items)	164	193	187	238	284
Tax	50	55	62	79	94
PAT	114	138	125	159	191
EPS in INR	8.1	9.9	8.9	11.4	13.6

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	14	14	14	14	14
Net Worth	524	655	761	896	1,058
Long Term Borrowings	193	108	102	97	92
Other Financial Liabilities	1	3	3	4	4
Long Term Provisions	8	6	6	7	8
Deferred tax liabilities (net)	66	52	59	69	78
Other non current liabilities	3	3	4	5	5
Total Non Current Liabilities	271	172	174	182	188
Short Term Borrowings	137	174	183	201	217
Trade Payables	105	182	211	250	285
Other Financial Liabilities	70	82	93	109	123
Other Current Liabilities	14	11	13	15	17
Short Term Provisions	10	9	11	13	14
Current tax liabilities (net)	5	16	17	21	23
Total Current Liabilities	340	475	527	609	680
Total Equity and Liabilities	1,135	1,302	1,462	1,687	1,925
Fixed and Intangible Assets	559	547	574	576	553
Loans	4	4	5	6	6
Income tax assets (net)	1	1	1	2	2
Deferred tax asset (net)	1	0	0	0	0
Other non-current assets	19	21	24	28	32
Total Non-Current Assets	584	575	605	612	594
Inventories	202	236	266	309	345
Investment	23	130	147	173	194
Trade receivables	244	289	322	374	415
Cash and cash equivalents	21	30	78	166	316
Other bank balances	2	2	2	2	2
Other Current Assets	61	39	44	52	59
Total Current Assets	551	727	858	1,075	1,331
Total Assets	1,135	1,302	1,462	1,687	1,925

Source: Company, NSPL Research

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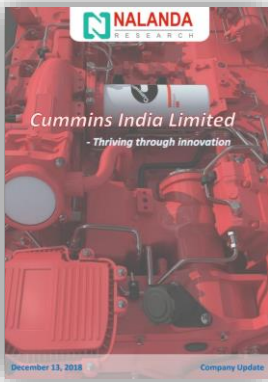


Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	164	193	187	238	284
Operating Profit before Working Capital Changes	215	245	259	316	367
Cash Generated from Operations	179	249	240	284	344
Less: income tax paid	-54	-31	-62	-79	-94
Cash Flow from Operating	126	217	178	205	250
(Incr)/ Decr in Gross PP&E	-39	-26	-71	-52	-31
Cash Flow from Investing	-169	-125	-87	-77	-52
(Decr)/Incr in Debt	92	-35	3	13	11
Finance costs	-29	-28	-27	-29	-30
Cash Flow from Financing	47	-85	-43	-40	-47
Incr/(Decr) in Balance Sheet Cash	4	8	47	88	151
Cash at the Start of the Year	17	21	30	78	166
Cash at the End of the Year	21	30	78	166	316

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Profitability					
Return on Capital (%)	21.6%	22.0%	19.3%	21.1%	21.9%
Return on Equity (%)	21.7%	21.1%	16.4%	17.8%	18.0%
Margin Trend					
EBITDA Margin (%)	16.8%	16.5%	15.0%	15.7%	16.2%
Net profit Margin (%)	9.5%	9.7%	7.8%	8.4%	8.9%
Solvency					
Total Debt / Equity	0.7	0.5	0.5	0.4	0.4
Net Debt / Equity	0.6	0.3	0.2	0.0	-0.1
Valuation Ratios					
P/E	23.2	28.4	25.5	20.0	16.7
EV/EBITDA	11.4	15.9	12.7	10.7	9.6

Source: Company, NSPL Research

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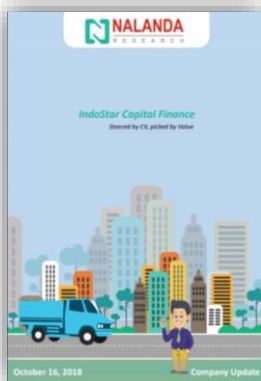
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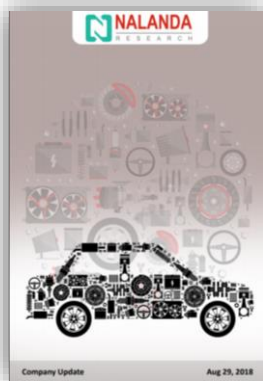
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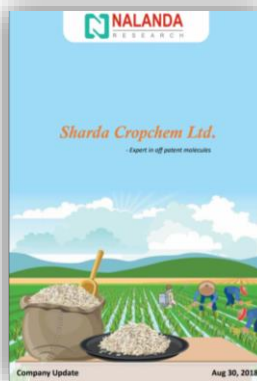
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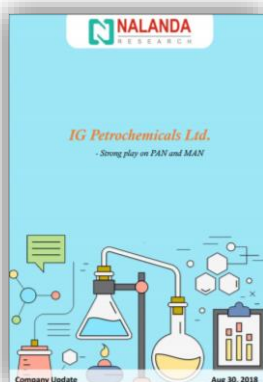
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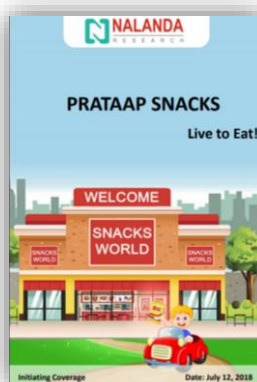
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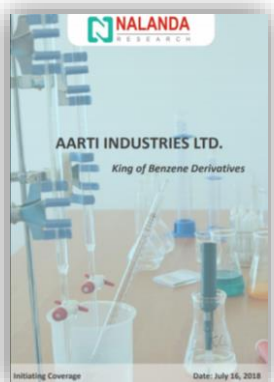
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Suprajit Engineering Ltd				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
December 20, 2018	228	280	Strong Buy	Buy	5% - 15%
				Hold	0 - 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
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Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
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