

Finance League '13

Team Name: FinWiz



Team Members:

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Suprajit Engineering caters to a wide spectrum of automotive and non-automotive cable requirements. It has achieved phenomenal growth and has cemented itself as India's largest manufacturer of automotive cables with a capacity of over 150 million cables a year with a turnover of over Rs. 500 cr. It is amongst the top five cable manufacturers in the world.

Investment Theme

New products

The company is trying to sell products such as gear shifters, filters, & stator coils by leveraging its customer relationships

Inorganic growth

The management is looking at acquiring component manufacturers for growth. The company has strong reserves built up to fund acquisition. It has good acquisition history

Aftermarket Opportunity

The aftermarket is dominated by the unorganized segment. SEL has a market share of less than 10%. Management is looking to expand in this space and expects an annual growth of 25%

Expected increase in market share with new and existing customer

The company is setting up a plant in Narsapura, Karnataka for 100% supplies to the 1.2mn unit new capacity of HMSI. The company is also expecting to scale up in newer accounts such as VW, Renault, Kubota and JCB.

Management indicated that Suprajit's pricing is lower than HMSI's incumbent supplier and expects to gain substantial market share.

Overweight

Target Price Rs. 52.15

Exchange	NSE, BSE
Ticker (NSE)	SUPRAJIT
Ticker (BSE)	532509
Industry	Auto Ancillaries

CMP (18 Nov 2013)	Rs. 39
Fair Value (DCF)	Rs. 40.4
Fair Value (DDM)	Rs. 15.88
52 week range (NSE)	26.20 – 43.35
Face Value	Rs. 1
Shares in issue	12 Cr
Market Cap	Rs. 468.078 Cr
30 Day Avg. Vol.	102745

Key Financials FY13

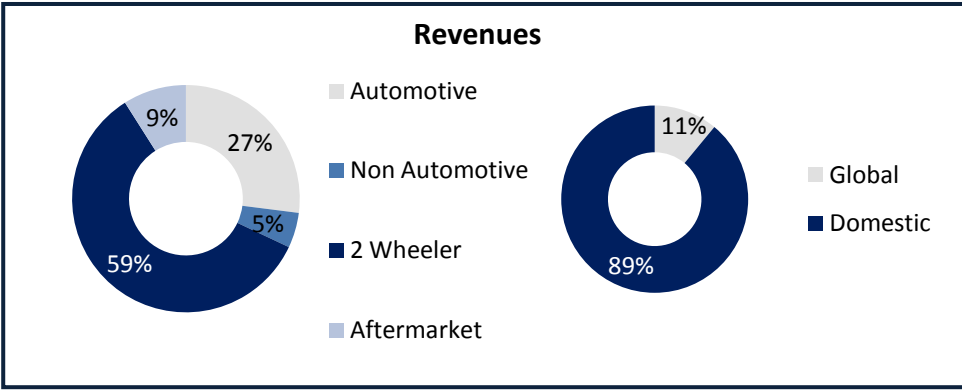
EV (In Cr.)	Rs. 501.69
BV (Rs./Share)	13.89
P/BV	2.81
EPS	Rs. 3.92
PE	9.96
EV/EBITDA	5.86
PAT Growth	18.28%
ROE	28.2%
ROA	14.48%
ROCE	22.6%
Asset Turnover	1.38
Debt/Equity	0.25
Fin Leverage	2.01
Dividend Yield	1.9%
Earnings Yield	10%

Source for all above data: Company, Bloomberg

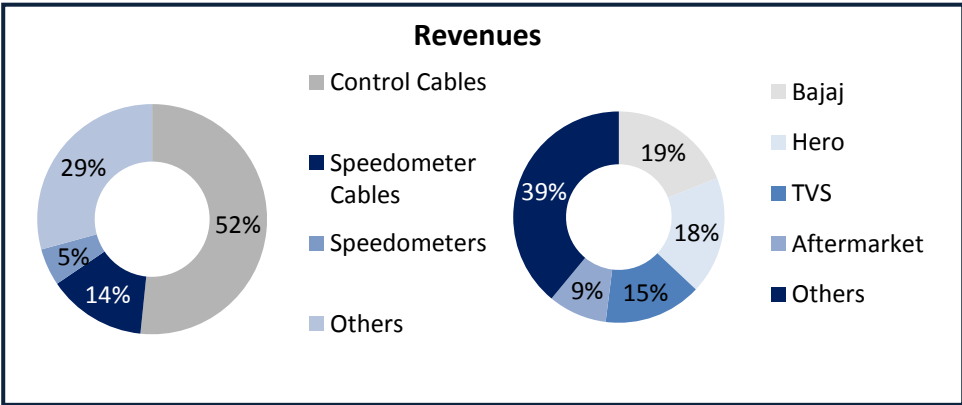
Suprajit Engineering Business Overview

The company was founded in 1985 by Mr. Ajith Kumar Rai after graduating from the Technical University of Nova Scotia, Canada. Commercial production as a small scale automotive cable manufacturer began in 1987.

The company manufactures automotive control cables and mechanical gauges (speedometers and tachometers) predominantly to cater to the demand of two wheeler OEMs (60%) and to four wheeler, commercial vehicles, and non-automotive applications.

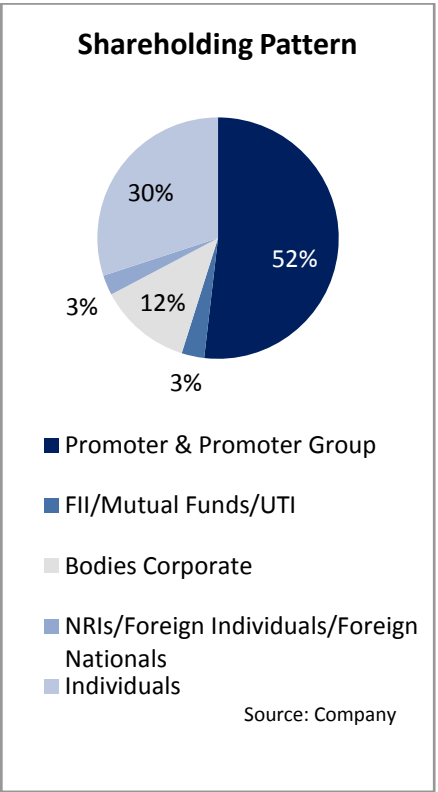


Control cable is major contributor to revenue and dependence on single customer is less



Plant Location

The company has 15 manufacturing units - 6 in Bangalore, 1 in Manesar, 2 in Pune, 2 in Gujarat, and 1 in Rajasthan. The company has an export oriented unit in Bangalore and a plant in United Kingdom in its subsidiaries. Plant locations are driven by customer requirements for instance, the Sanand plant in Gujarat majorly caters to Tata Motors requirements



The promoter family holds 51.84% in the company. TVS Motors and Sundaram Clayton who are early stage investors in the company together own 7.22%. The former chairman (Mr. MRB Punja) and his family own 3.22%.

Client/Business - Market Share	
Bajaj	80%
Hero	Approx 80%
TVS	100% for Cables 60% for speedometers
HMSI	20 to 25%
Aftermarket	9%
Domestic 4W OEMs	25%

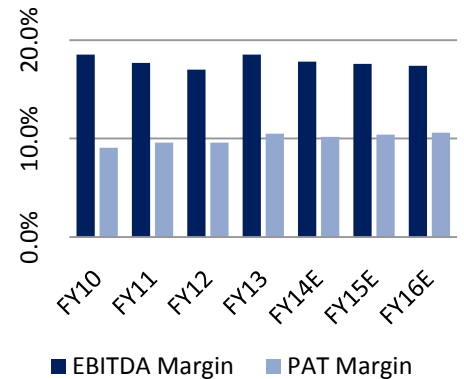
Source: Company

Suprajit Engineering Operational Overview

Sourcing Advantage and Healthy EBITDA & PAT Margins

Suprajit's economies of scale enable aggressive pricing and competitive sourcing from a large vendor base. Its competitors such as Remsons and Acey who were first movers have ceded share. Profitability of its competitor has been weak. EBITDA margin of Suprajit is consistently more than twice that of the nearest rival

A relentless focus on cost efficiency is the key success factor. This has led to continuously maintain high PAT margins

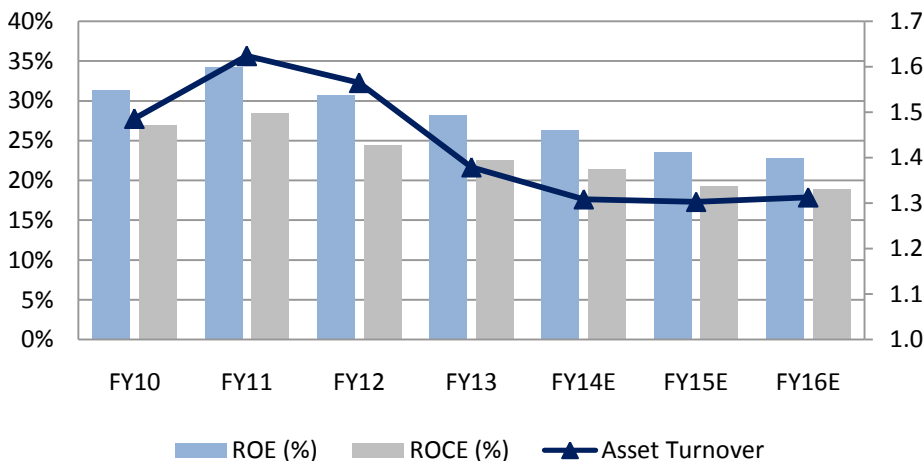


Source: Company & Team estimates

Profitability & Efficiency

Suprajit is poised to maintain its dominant position in automotive cables, with market share gains with Honda (HMSI) being the near term growth trigger. We expect revenue and earnings CAGR of 21% in the next three years resulting in better asset turnover

Combined with high revenues and robust EBITDA company will generate healthy return on capital employed and return on equity



Source: Company & Team Estimates

Corporate Governance

Suprajit Engineering held AGM and four board meeting in the year in compliance with Companies Act and SEBI guidelines. No penalties have been imposed on the Company by the Stock Exchanges or SEBI or any other Statutory Authorities. The company is high on social responsibility which is evident in its annual reports and website. The focus area in CSR is healthcare, education and rural development.

Modernization

In 2006, it went in for an Oracle based ERP solution across all units

Awards

In 2006, it won two awards viz. SME of the year and Auto Ancillary of the Year in the Emerging India Award Series instituted by CNBC-ICICI Bank.

Acquisition of Shah Concabs Pvt. Ltd

Shah Concabs Pvt Ltd. engaged in manufacturing heavy duty automotive cables.

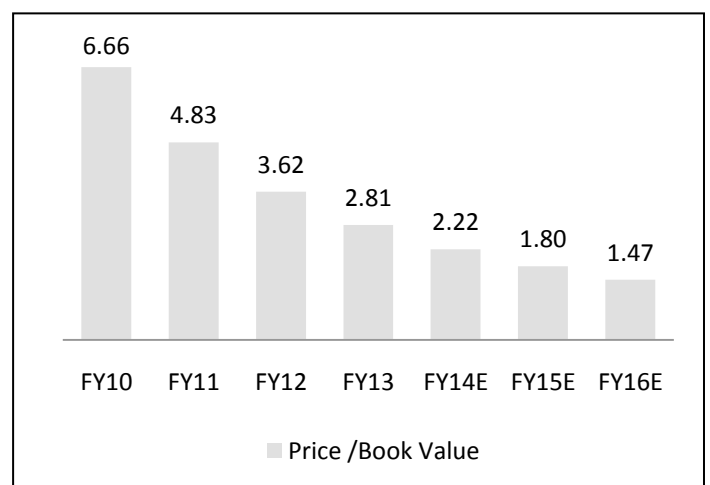
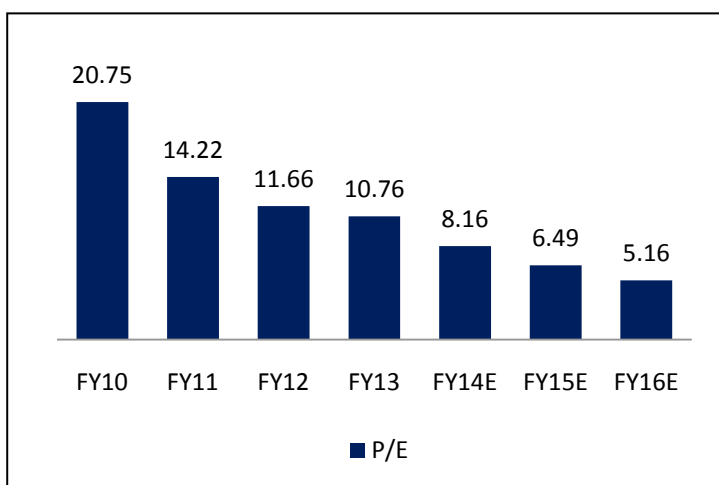
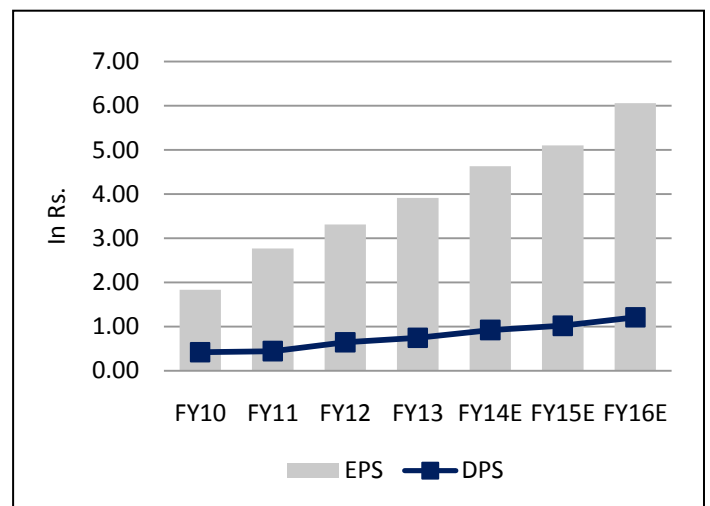
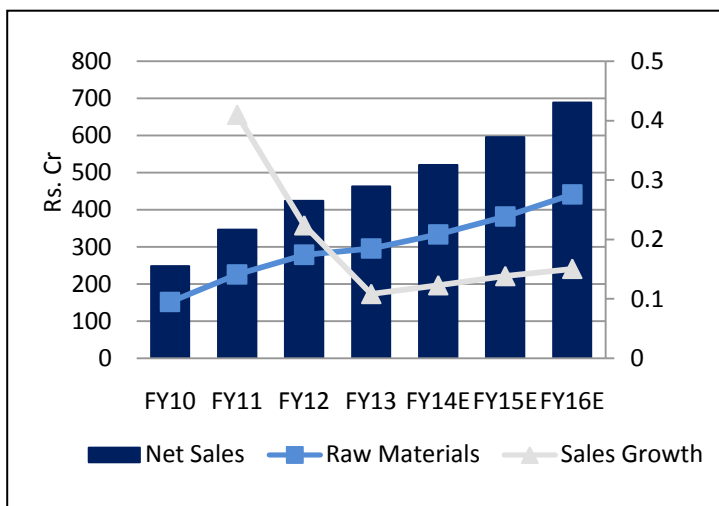
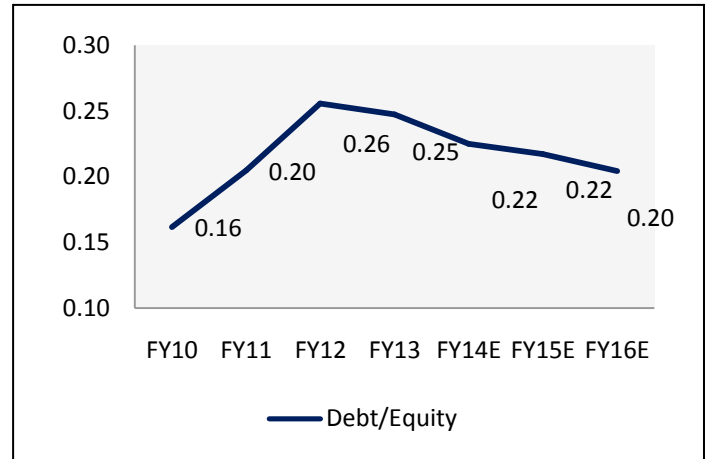
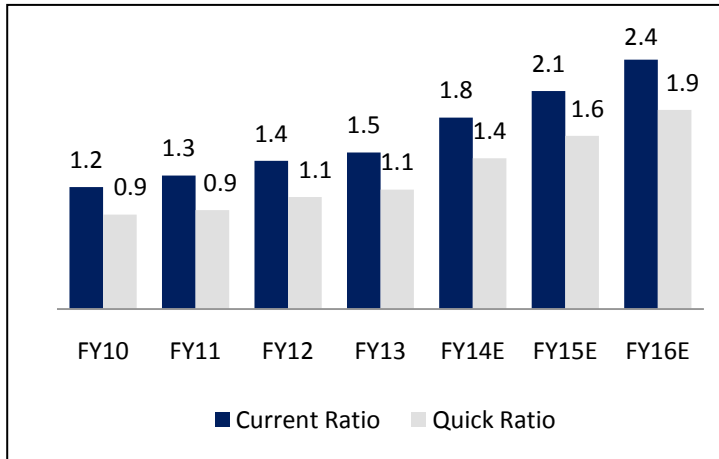
JV with CTP Gills Cables

The Rs.12 crores joint venture saw the two partners investing an equal share in the facility at Doddaballapur near Bangalore

Source: Company Data

Financial Analysis

Strong growth, healthy CF, short term liquidity, long term solvency & attractive valuation



Source: Company, Team Estimates

Valuation Methods

We have valued the stock using 3 methods: Discounted Cash Flows, Dividend Discount Model and Relative valuation.

Key Assumptions

Long Term growth Rate (g)	4%
Equity Risk Premium (Rf-Rm)	6.5%
WACC (K)	12.46%
Dividend Payout Ratio (%)	20%
FY16 Expected EPS (Rs.)	6.06

DDM Inputs	Value
Cost Of Equity	13.58%
Initial Growth Rate	23%
Retention Ratio	81%
RoE	28%
Current Dividend	0.75
Terminal growth rate	6%
DDM Price Target	15.88

Sensitivity Analysis of DCF Model

Rs. (K)	Growth Rate (g)				
	3%	4%	5%	6%	7%
10%	50.1	58.0	69.1	85.8	113.5
11%	43.5	49.4	57.1	68.0	84.4
12%	38.4	42.9	48.6	56.2	66.9
13%	34.4	37.9	42.2	47.9	55.4

Investment Risks

- The cable manufacturing industry heavily depends on commodities such as steel, PVC compound, rubber, and zinc the prices of which can fluctuate quite violently
- International price competition from Chinese exporters
- Large exposure to two—wheeler industry
- Exports likely to be adversely impacted due to macro issues in Eurozone and U.S

Considering the fact that India has more than 300 million middle class people with rising incomes who aspire to motorize their world and if we look at the under penetration of 8 to 12 cars per thousand as compared to China's record of 60 cars per thousand, Suprajit Engineering has miles to go and promises to keep

We value based on past 2 year average PE ratio to assign a PE multiple of 8.61x and considering 15% CAGR in EPS. We arrive at Price Target of Rs. 52.15 based on 8.61x on FY16E EPS of Rs 6.06

Balance Sheet is expected to become stronger by FY16E. Strong Cash on books & large investments in liquid funds would encourage high dividend payout

Valuation Ratio	FY13	FY14E	FY15E	FY16E
Book Value (Rs./Share)	13.89	17.60	21.68	26.53
Price /Book Value	2.81	2.22	1.80	1.47
P/E	9.96	8.42	7.64	6.44
PEG	0.54	0.83	0.41	
EV/Sales	1.08	0.96	0.85	0.76
EV/EBIDTA	5.86	5.29	4.73	4.23
Dividend Yield (%)	0.02	0.02	0.03	0.03
Earnings Yield (%)	10.0%	11.9%	13.1%	15.5%

Historical PE valuation chart



Source: All above data is Team Estimates

ANNEXURE

P&L (Rs. Cr)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Sales	265.51	374.42	458.31	507.99	570.51	649.56	747.45
2 Wheeler			279.57	299.71	319.57	347.03	382.52
2 Wheeler Growth Assumptions				7%	7%	9%	10%
Bajaj Auto			53.12	56.95	59.79	63.98	68.46
Bajaj Auto Growth Assumptions				7%	5%	7%	7%
TVS			47.53	44.96	44.06	44.50	46.72
TVS Growth Assumptions				-5%	-2%	1%	5%
Hero MotorCorp			44.73	53.95	59.88	66.47	73.78
Hero MotorCorp Growth Assumptions				21%	11%	11%	11%
HMSI			5.59	8.99	14.39	23.74	37.98
HMSI Growth Assumptions				61%	60%	65%	60%
Others			128.60	134.87	141.45	148.34	155.57
Others Growth Assumptions				5%	5%	5%	5%
Automotive			114.58	137.16	164.59	197.51	237.01
Automotive Growth Assumptions				20%	20%	20%	20%
Non Automotive			22.92	25.40	29.21	33.59	38.63
Non Automotive Growth Assumptions				11%	15%	15%	15%
Aftermarket			41.25	45.72	57.15	71.44	89.30
Aftermarket Growth Assumptions				11%	25%	25%	25%
Excise Duty	17.02	27.7	34.56	45.45	49.52	53.95	58.77
Excise Duty as % of sales	6%	7%	8%	9%	9%	9%	9%
Net Sales	248.49	346.72	423.75	462.54	521.00	595.61	688.68

Total Expenditure	200.37	295.98	357.87	391.95	442.02	505.31	584.24
Raw Materials	151.94	226.09	279.03	296.05	334.02	381.86	441.52
Components & Others	115.4	133.82	167.97	181.27	205.35	234.76	271.44
Components & Others as % of sales	46%	39%	40%	39%	39%	39%	39%
Inner	20.46	34.18	40.26	41.92	48.36	55.28	63.92
Inner as % of sales	8%	10%	10%	9%	9%	9%	9%
Steel Wire	10.65	30.64	38.24	38.56	41.68	47.65	55.09
Steel Wire as % of sales	4%	9%	9%	8%	8%	8%	8%
Bend Tube Assembly	3.44	18	22.14	23.2	26.13	29.87	34.54
Bend Tube Assembly as % of sales	1%	5%	5%	5%	5%	5%	5%
PVC Compounds	1.99	9.45	10.42	11.1	12.50	14.29	16.53
PVC Compounds as % of sales	1%	3%	2%	2%	2%	2%	2%
Power & Fuel Cost	4.15	6.11	6.31	7.11	8.01	9.16	10.59
Power & Fuel Cost as % of sales	2%	2%	1%	2%	2%	2%	2%
Employee Cost	29.05	41.49	48.71	56.99	64.19	73.39	84.85
Employee Cost as % of sales	12%	12%	11%	12%	12%	12%	12%
Other Expenses	15.10	22.15	23.69	31.66	35.66	40.77	47.14
Other Expenses as % of sales	6%	6%	6%	7%	7%	7%	7%
Operating Profit	45.63	56.49	69.01	77.68	86.06	97.39	111.53
Other Income	0.28	4.75	2.93	7.95	8.95	10.24	11.84
Other Income as % of sales	0%	1%	1%	2%	2%	2%	2%
EBIDTA	45.91	61.24	71.94	85.63	95.02	107.63	123.36
Depreciation	6.87	7.23	7.47	8.15	5.93	6.30	5.95
EBIT	39.04	54.01	64.47	77.48	89.09	101.33	117.41
Interest	6.23	7.4	9.81	10.8	14.74	16.12	16.23
Interest as a % of total debt	9%	16%	13%	10%	12%	12%	12%
PBT	32.81	46.61	54.66	66.68	74.35	85.21	101.18
Less: Tax	10.39	13.47	14.1	18.26	20.92	23.98	28.47
Less: Deferred Tax	0.38	-0.06	0.83	1.43	-2.155	0	0
Tax Rate	32%	29%	26%	27%	28%	28%	28%
PAT	22.04	33.20	39.73	46.99	55.58	61.23	72.71
Extraordinary Items	(0.01)	0.36	0.54	5.07	0.45	0.45	0.45
Adjusted Net Profit	22.05	32.84	39.19	41.92	55.13	60.78	72.26
Shares Outstanding (M)	12.00	12.00	12.00	12.00	12.00	12.00	12.00
EPS	1.84	2.77	3.31	3.92	4.63	5.10	6.06
Dividend	5.10	5.40	7.80	9.00	11.12	12.25	14.54
Dividend Payout(%)	23%	16%	20%	19%	20%	20%	20%
DPS	0.42	0.45	0.65	0.75	0.93	1.02	1.21

Source: Company, Team Estimates

Balance Sheet (Rs. Cr)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Sources of Funds							
Share Capital	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Reserves Total	58.25	84.92	117.19	154.74	199.21	248.19	306.36
Total Shareholders Funds	70.25	96.92	129.19	166.74	211.21	260.19	318.36
Long Term Borrowings	11.34	18.17	31.12	39.17	45.42	54.42	62.92
Long Term Provisions		1.19	1.36	1.39	1.39	1.39	1.39
Other Long Term Liabilities		0.47	0.54	0.69	0.69	0.69	0.69
Total Debt	11.34	19.83	33.02	41.25	47.50	56.50	65.00
Total Liabilities	81.59	116.75	162.21	207.99	258.71	316.69	383.36
Application of Funds							
Gross Block	107.27	131.80	154.34	180.50	193.00	211.00	228.00
Less : Accumulated Depreciation	37.48	45.11	53.69	61.62	67.55	73.85	79.80
Depreciation as % of Gross Block	35%	34%	35%	34%	35%	35%	35%
Net Block	69.79	86.69	100.65	118.88	125.45	137.15	148.20
Capital Work in Progress	1.91	4.27	13.07	17.58	18.00	19.00	20.00
Investments	0.42	0.42	0.42	0.56	0.56	0.56	0.56
Long Term Loans and Advances		2.92	6.31	10.43	10.43	10.43	10.43
Net Current Assets	13.18	26.23	46.30	66.59	115.73	156.91	207.39
Current Assets, Loans & Advances	99.00	125.96	161.35	204.43	258.05	304.35	359.81
Current Investments	9.01	7.90	17.90	44.93	70.00	90.00	120.00
Inventories	22.30	32.57	39.29	48.60	54.74	62.58	72.36
Inventory Days	32.76	34.29	33.84	38.35	38.35	38.35	38.35
Sundry Debtors	57.75	73.36	89.30	92.84	110.01	125.77	145.42
Debtor Days	84.83	77.23	76.92	73.26	77.07	77.07	77.07
Cash and Bank	1.23	2.70	3.12	7.64	12.88	15.58	11.61
Loans and Advances	8.71	9.24	11.52	10.20	10.20	10.20	10.20
Other Current Assets		0.19	0.22	0.22	0.22	0.22	0.22
Less : Current Liabilities and Provisions	85.82	99.73	115.05	137.84	142.32	147.44	152.43
Short Term Borrowings	29.79	28.12	43.72	63.75	61.75	58.75	53.75
Increase in Short Term Borrowings		(1.67)	15.60	20.03	(2.00)	(3.00)	(5.00)
Trade Payables	31.23	38.58	46.49	46.79	52.70	60.25	69.67
Payable Days	45.87	40.61	40.04	36.92	36.92	36.92	36.92
Other Current Liabilities	19.23	28.32	18.51	20.40	20.40	20.40	20.40
Short Term Provisions	5.57	4.71	6.33	6.90	7.47	8.04	8.61
Increase in Provisions		(0.86)	1.62	0.57	0.57	0.57	0.57
Net Deferred Tax	(3.84)	(3.78)	(4.61)	(6.04)	(3.89)	(3.89)	(3.89)
Deferred Tax Assets	0.95	0.41	0.25	0.94	0.94	0.94	0.94
Deferred Tax Liability	4.79	4.19	4.86	6.98	4.83	4.83	4.83
Total Assets	81.46	116.75	162.14	208.00	266.28	320.16	382.69

Source: Company, Team Estimates

Cash Flows (Rs. Cr)	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
EBIT	39.04	54.01	64.47	77.48	89.09	101.33	117.41
EBIT Post Tax	26.67	38.40	47.84	56.26	64.02	72.82	84.37
Add : Depreciation Others	6.87	7.23	7.47	8.15	5.93	6.30	5.95
O/P Cash Flow before WC Changes	33.543	45.634	55.31	64.414	69.949	79.116	90.322
Decrease in Working Capital		(20.73)	(1.43)	8.80	(19.40)	(19.05)	(25.02)
Decrease in Inventories		(10.27)	(6.72)	(9.31)	(6.14)	(7.84)	(9.78)
Decrease in Sundry Debtors		(15.61)	(15.94)	(3.54)	(17.17)	(15.76)	(19.65)
Decrease in Loans & Advances		(0.53)	(2.28)	1.32	0.00	0.00	0.00
Increase in Current Liabilities		5.68	23.51	20.33	3.91	4.55	4.41
Cash Flow from Operations		24.904	53.88	73.214	50.546	60.068	65.307
Capex		(16.90)	(13.96)	(18.23)	(12.50)	(18.00)	(17.00)
Investments		1.11	(10.00)	(27.03)	(25.07)	(20.00)	(30.00)
Cash Flow from Investing		-15.79	-23.96	-45.26	-37.57	-38	-47
Equity Issued		0.00	0.00	0.00	0.00	0.00	0.00
Increase in Debt		8.49	13.19	8.23	6.25	9.00	8.50
Interest paid		(7.40)	(9.81)	(10.80)	(14.74)	(16.12)	(16.23)
Dividend Paid		(5.40)	(7.80)	(9.00)	(11.12)	(12.25)	(14.54)
Cash Flow from Financing		-4.31	-4.42	-11.57	-19.6	-19.37	-22.27
Net Change in Cash		4.80	25.50	16.38	(6.63)	2.70	(3.97)
Cash at Start		1.23	2.70	3.12	19.50	12.88	15.58
Cash at End		6.03	28.20	19.50	12.88	15.58	11.61
FCFF		8.00	39.92	54.98	38.05	42.07	48.31

Source: Company, Team Estimates

	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Valuation Ratio							
Book Value (Rs./Share)	5.85	8.08	10.76	13.89	17.60	21.68	26.53
Price /Book Value	6.66	4.83	3.62	2.81	2.22	1.80	1.47
P/E	21.24	14.10	11.78	9.96	8.42	7.64	6.44
PEG	0.42	0.72	0.64	0.54	0.83	0.41	
EV/Sales	1.92	1.40	1.18	1.08	0.96	0.85	0.76
EV/EBIDTA	10.42	7.92	6.92	5.86	5.29	4.73	4.23
Dividend Yield (%)	0.01	0.01	0.02	0.02	0.02	0.03	0.03
Earnings Yield (%)	4.7%	7.1%	8.5%	10.0%	11.9%	13.1%	15.5%
Solvency Ratio							
Current Ratio	1.15	1.26	1.40	1.48	1.81	2.06	2.36
Quick Ratio	0.89	0.94	1.06	1.13	1.43	1.64	1.89
Cash Ratio	0.02	0.03	0.03	0.06	0.09	0.11	0.08
Debt/Equity	0.16	0.20	0.26	0.25	0.22	0.22	0.20
Interest Coverage Ratio	6.27	7.30	6.57	7.17	6.05	6.29	7.23
Profitability Ratio							
EBITDA Margin	0.18	0.18	0.17	0.19	0.18	0.18	0.18
PAT Margin	8.9%	9.6%	9.4%	10.2%	10.7%	10.3%	10.6%
ROE (%)	0.31	0.34	0.31	0.28	0.26	0.24	0.23
ROCE (%)	27%	28%	24%	23%	21%	19%	19%
Growth Ratio							
1 Year forward EPS Growth (%)	50.67	19.66	18.28	18.28	10.16	18.74	
EBITDA Growth		33.4%	17.5%	19.0%	11.0%	13.3%	14.6%
Sales Growth		0.41	0.22	0.11	0.12	0.14	0.15
Dupont Analysis							
ROE	31%	34%	31%	28%	26%	24%	23%
PAT	9%	10%	9%	10%	11%	10%	11%
EBIT Margin	15.7%	15.6%	15.2%	16.8%	17.1%	17.0%	17.0%
Interest Burden	84%	86%	85%	86%	83%	84%	86%
Tax Burden	67%	71%	73%	70%	75%	72%	72%
Asset Turnover	1.49	1.62	1.56	1.38	1.31	1.30	1.31
Leverage	2.38	2.20	2.10	2.01	1.89	1.76	1.65
Activity Ratio							
Asset Turnover	1.49	1.62	1.56	1.38	1.31	1.30	1.31
Fixed Asset Turnover	3.56	4.00	4.21	3.89	4.15	4.34	4.65
Receivables Turnover	4.30	4.73	4.75	4.98	4.74	4.74	4.74
Inventory Turnover	11.1	10.6	10.8	9.5	9.5	9.5	9.5
Payables Turnover	7.96	8.99	9.11	9.89	9.89	9.89	9.89
Receivables Days	84.83	77.23	76.92	73.26	77.07	77.07	77.07
Inventory Days	32.8	34.3	33.8	38.4	38.4	38.4	38.4
Payables Days	45.87	40.61	40.04	36.92	36.92	36.92	36.92

Peer Comparison

Name	Net Sales Growth (%)	EBITDA Margin	ROE	D/E	Mkt Cap (In Cr.)	EV/EBITDA
Suprajit Engg.	11.16	18.54	28.42	0.25	468.00	5.86
Sundaram Clayton	0.15	7.97	10.64	1.4	607	3.19
Wabco India	-7.62	21.40	22.21	0.00	3198.00	15.18
Amtec India	31.23	29.64	8.04	1.2	1810	7.48
Minda Ind.	-4.44	7.81	8.37	0.63	317.00	4.78
Lumax Ind.	8.63	6.14	8.63	1.1	309	7.29

Source: Company, Team Estimates