

# Suprajit Engineering

## Margin drivers in place

Revenue grew 18%YoY to INR8.4bn, above our estimate of INR 7.9bn. The growth in the non-automotive segment (16% of total sales) continued, with revenues growing 2% YoY. APAT at INR 255mn was lower than our estimate of INR 471mn due to higher finance costs and depreciation. The Suprajit Controls Division (SCD) continues to win significant new automotive contracts, despite flat growth in the global auto industry. SEL is benefitting from its focus on on/off/near shoring strategy with order wins from leading OEMs. SEL is emerging as one of the major beneficiaries of the global derisking strategy by OEMs in the cables business as it remains amongst the very few large players with the ability to supply from multiple low-cost locations globally based on OEMs requirements. Profitability is expected to significantly improve over FY24-27 as synergies of recent acquisitions flow in. Maintain Add with a TP to INR 602, valued at 25x Sep-26 earnings.

- Miss on all metrics:** Revenue grew 18%YoY to INR8.4bn, above our estimate of INR 7.9bn. Lower RM costs led to gross margin expansion of 252bps YoY to 43.3%. EBITDA margin at 10.6% (+71bps YoY/-120bps QoQ) was marginally lower than our estimate of 10.9%. One-offs and restructuring expenses booked in Q2 amounted to INR 250mn.
- Call takeaways:** (1) SCD: Revenue grew just 2.9% YoY while profitability continued to improve, with margin at 8.3% (+20bps QoQ). Order wins continue to be strong in the auto division and it is also securing non-auto contracts. SCD has undertaken restructuring processes across all units to reduce costs. This has resulted in one-off expenses in Q2. (2) Red Sea and Panama Canal challenges continue to impact shipping timelines resulting in higher freight costs. (3) The electronics division is expanding business beyond India and has started supplies to overseas subsidiaries who are buying components locally. (4) The domestic cable division margin expanded 70bps YoY (160bps QoQ) to 17.2% supported by the ramp up of its Beyond Cables project. (5) The first tranche of transactions related to acquisition of SCS Germany is complete. The operations at Germany, Poland, and Morocco have been acquired. (6) Revenue for acquired (SCS) business for Q2 stood at INR 602mn, with EBITDA loss at INR 102mn. The European operations of SCS were also impacted by the downturn in European automotive markets. (7) The second tranche of the transaction, including China and Canada is expected to be completed in Q4. (7) For Q2, one-off costs stood at INR 250mn, attributed to ongoing restructuring costs, write-offs, expenses relating to acquisition of SCS Germany and its subsidiaries, and restructuring expenses at SCD. (8) The total debt stood at INR 7.2bn (vs INR 5.8bn in Q1), while cash surplus was INR 3.3bn.

### Quarterly/annual financial summary

YE Mar (INR mn)	Q2 FY25	Q2 FY24	YoY (%)	Q1 FY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	8,336	7,089	17.6	7,349	13.4	28,959	35,089	40,295	46,006
EBITDA	880	698	26.1	864	1.9	3,230	3,860	4,997	5,797
APAT	255	348	-26.7	381	-33.2	1,673	2,114	3,024	3,536
Diluted EPS (INR)	1.84	2.5	-26.7	2.8	-33.2	12.08	15.27	21.84	25.54
P/E (x)						40.3	31.9	22.3	19.1
EV / EBITDA (x)						22.4	18.8	14.3	12.0
RoCE (%)						12.9	14.7	18.5	18.6

Source: Company, HSIE Research

## ADD

CMP (as on 12 Nov 2024)	INR 487
Target Price	INR 602
NIFTY	23,883

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 602	INR 602
EPS %	FY25E	FY26E
	-4.9%	0.5%

### KEY STOCK DATA

Bloomberg code	SEL IN
No. of a Shares (mn)	137
MCap (INR bn) / (\$ mn)	67/789
6m avg traded value (INR mn)	221
52 Week high / low	INR 640/357

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(7.0)	18.9	30.7
Relative (%)	(5.7)	10.7	10.1

### SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	44.61	44.64
FIs & Local MFs	16.95	17.21
FPIs	5.82	6.30
Public & Others	32.62	31.85
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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