

**Stock Code**

BSE Code	532509
BSE Group	B
Bloomberg	SEL IN
Reuters	SUPE.BO

**Market Data**

CMP (Rs)	20.35
Target Price (Rs)	30.00
Potential Upside (%)	47%
Market Cap (Rs Cr)	239
52 Wk High/Low (Rs)	23.5/16.1

**Shareholding (%)**

Promoter	51.8
DII	0.3
FII	0
Public & others	47.9



**Engineering Growth!**

*Suprajit Engineering promoted by Mr Ajith Kumar Rai manufactures control cables, speedometer cables, speedometers etc for two wheelers and four wheeler industry. It also manufactures cables for non automotives and for replacement market. SEL commands 45% market share in the two wheeler segment and 35% market share in the four wheeler segment. The company's current installed capacity is 110 Mn cables p.a. operating at 80% utilization.*

*Suprajit has grown at a CAGR of 19% during FY09-FY11. We expect it to grow by 20% and 25% in FY12E and FY13E respectively, on the back of capacity expansion and addition of new customers in the non automotive space. It is trading at 6.7 and 5.1 times its FY12 and FY13 estimated EPS. We have valued Suprajit 7.5 times its FY13 EPS arriving at a fair value of Rs 30 an upside potential of 47% from current levels.*

- Strong market share** – Suprajit commands 45% market share in two wheeler segment and 35% in the four wheeler segment. It is a sole supplier to TVS and 80% of the cable requirements of Bajaj and Hero Moto is met by Suprajit.
- Capacity Expansion to boost revenues** – The company's total current capacity is around 110 Mn cables p.a. operating at 80% capacity utilization. By Dec 2012, the company will be adding another 40 Mn cable capacity which will boost its topline going forward.
- Addition of new customers** – Suprajit added new customers like Volkswagen for Polo in India, BMW for Germany & Europe, Nissan, Palio, Arvin Meritor and Brozer (Germany). In the non automotive space customers like John Deere, Kubota, Club Car, JCB etc. will help in the next phase of volume growth.
- Growth in high margin non automotive and replacement market** – Suprajit is growing quite aggressively in the non automotive and replacement market segment where the margins are also higher as compared to automotive segment. In the non automotive segment the company commands 18% operating margins and in replacement market it enjoys 5% higher margins than in automotive space.
- Strategic locations of plants** - Suprajit has set up manufacturing facility at 8 different locations across the country to be close to its main customers in the North, West and Southern belts. Haridwar plant next to Hero Honda, Pantnagar plant next to Bajaj, the planned Sanand plant next to Tata Nano, etc. which gives Suprajit a logistic advantage.
- Elite Clientele** – In the two wheeler space the company's major customers are TVS, Bajaj Auto and Hero Moto. In the four wheeler segment the company's customers are Tata Motors, Mahindra and Mahindra, Hyundai, Ford and General Motors. Major exports customers are General Motors, Suzuki and Piaggio.

**Afshan Sayyad**  
 afshan@kmglobal.in  
 +91 22 40023026

### Clientele

2 Wheelers	4 Wheelers	Exports	New Customers	Non Automotive
Bajaj Motorcycles	Tata Motors	General Motors (US)	Volkswagen (Polo in India)	John Deere
Hero Motorcycles	M&M	Suzuki (Hungary)	BMW (for Germany & Europe)	Kubota
TVS	Hyundai	Piaggio	Nissan	Club Car
	Ford		Palio	EZGo
	General Motors		Arvin Meritor	Jcabson
			Brozer (Germany)	JCB
				L&T

Suprajit is the market leader in auto cable business with an overall market share of 45%. It supplies to both domestic as well as global OEM across all segments. Volkswagen, BMW, Nissan etc are the new customers additions.

With 13.5 million 2-wheelers produced last year, India is now the second largest manufacturer of motorcycles in the world. This has augured well for the competent component suppliers like Suprajit for the requirement of domestic customers as well as overseas customers.

The company remains market leader and competes with domestic players such as Remson Industries and Acey Engineering in 2-wheeler space and with global giants like TSK Japan, Samyong (Hyundai Supplier), Tata Ficosa (JV between Tata & Ficosa) and Hi-lex Japan (Toyota) in the 4-wheeler space.

### Manufacturing Facility

Plant	Location	Segment	Major Customers
1,12	Bangalore	Aftermarket	TVS, Ashok Leyland, Royal Enfield, Hyundai
2, 2A	Bangalore	Cables	TVS, Ashok Leyland, Royal Enfield, Hyundai
3	Bangalore	Speedometers, gauges	TVS, Ashok Leyland, Royal Enfield, Hyundai
4	Manesar, Delhi	Cables	Hero Honda, HMSI & Yamaha
5,14	Chakan, Pune	Cables	Bajaj Auto
6	Vapi, Gujarat	Cables	Tata Motors, M&M & Eicher
7	Panthnagar, Uttarakhand	Cables	Bajaj Auto, Ashok Leyland, Tata Motors
9	Bangalore	Non Automotive	John Deere, JCB, Jcabson
10	Haridwar, Uttarakhand	Cables for two wheelers	Hero Honda, HMSI & Yamaha
11	Sanand	Under Construction	Tata Motors (Nano)
15	Rajasthan	Under Construction	

Suprajit has achieved plant localization to the tune of 70% .This has happened because of experience and quality team with SPL. Most of the plants are situated in close proximity to the OEM's. Working with multiple OEMs and having attained market leadership also helps them work closely with its clientele and design products with them.

The economy of scale is another lever for the OPM. Therefore, where most of the auto component struggle to hit 10% at operating level, SPM has a history of 15%+. Management has indicated that this could best get moderated by ~100bps but volume growth would make for it.

### Concerns

- ◆ Wild fluctuations in raw material prices might put pressure on margins
- ◆ As 60% of the revenues of the company is from the two wheeler segment. Slowdown in the sector would affect its volume growth.
- ◆ Competition from Chinese counterparts like Ning Bo and Pangio

### Historical PE Band



### Interim Performance

Rs Cr	STANDALONE						CONSOLIDATED		
	3QFY12	3QFY11	YoY%	2QFY12	2QFY11	YoY%	9mFY12	9mFY11	YoY%
Total Income	101	80	27	94	77	22	311	254.0	23
Total Expenditure	85	66	29	78	63	23	262	210.0	25
EBITDA (Excl OI)	16	14	17	16	14	20	50	44.1	13
Other Income	1	1	92	0	1	-49	3	1.8	50
Operating Profit	17	14	20	17	15	16	52	45.9	14
Interest	3	2	31	2	2	27	7	5.5	24
EBDT	15	13	18	15	13	14	46	40.4	13
Depreciation	1	1	-3	1	1	14	6	5.3	6
PBT	14	11	20	14	12	15	40	35.2	13
Tax	4	3	18	4	4	-5	11	10.3	9
Profit After Tax	10	8	22	10	8	24	29	24.8	16
Equity Capital	12	12	0	12	12	0	12	12	-
Face Value (In Rs)	1	1	-	1	1	-	1	1	-
EPS	0.80	0.70	22	0.80	0.70	24	2.40	2.10	14
EBIDTM%	15.60	16.50	(6)	16.40	17.30	-5	16.80	18.10	(7)
PATM%	9.00	9.40	(4)	9.50	9.30	2	9.20	9.80	(6)

<b>Income Statement</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12e</b>	<b>FY13e</b>
Revenue	248.5	346.7	<b>416.0</b>	<b>520.1</b>
Operating Expense	203.3	290.0	<b>347.4</b>	<b>431.6</b>
EBITDA	45.2	56.7	<b>68.6</b>	<b>88.4</b>
Other Income	0.8	4.8	<b>1.0</b>	<b>1.0</b>
Dep & Amo	6.9	7.2	<b>8.8</b>	<b>10.3</b>
Interest	6.2	7.5	<b>9.7</b>	<b>12.1</b>
Tax	10.8	13.5	<b>14.8</b>	<b>19.4</b>
Net Income	22.0	32.7	<b>36.3</b>	<b>47.6</b>
Non Recurring Item	0.0	0.0	<b>0.0</b>	<b>0.0</b>
Adjusted Net Income	22.0	32.7	<b>36.3</b>	<b>47.6</b>
Dividend	3.6	3.3	<b>3.6</b>	<b>3.6</b>

<b>Balance Sheet</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12e</b>	<b>FY13e</b>
Share Capital	12.0	12.0	<b>12.0</b>	<b>12.0</b>
Reserve	58.3	84.9	<b>117.6</b>	<b>161.6</b>
Total Equity	70.3	96.9	<b>129.6</b>	<b>173.6</b>
Loan Fund	61.7	65.9	<b>95.9</b>	<b>105.9</b>
Total Capital	132.0	162.8	<b>225.5</b>	<b>279.5</b>
Fixed Asset	69.8	86.7	<b>98.0</b>	<b>112.6</b>
Investment	9.4	8.3	<b>8.3</b>	<b>8.3</b>
Cash	1.2	2.7	<b>19.0</b>	<b>32.8</b>
Inventory	22.3	32.6	<b>36.2</b>	<b>45.2</b>
Other Current Asset	66.6	87.3	<b>118.9</b>	<b>148.6</b>
Total Current Liability	35.4	55.3	<b>54.7</b>	<b>68.1</b>
Net Current Asset	54.7	67.3	<b>119.3</b>	<b>158.6</b>
Total Asset	132.0	162.8	<b>225.5</b>	<b>279.5</b>

<b>Ratio Analysis</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12e</b>	<b>FY13e</b>
Revenue Growth (%)	20.3	39.5	<b>20.0</b>	<b>25.0</b>
EBITDA Margin (%)	18.2	16.4	<b>16.5</b>	<b>17.0</b>
EBITDA Growth (%)	52.7	25.4	<b>21.1</b>	<b>28.8</b>
Adj Net Inc Margin (%)	8.9	9.4	<b>8.7</b>	<b>9.1</b>
Adj Net Inc Growth (%)	144.4	48.6	<b>11.1</b>	<b>30.8</b>
Total Asset Turnover (x)	2.1	2.4	<b>2.1</b>	<b>2.1</b>
Debt Equity Ratio (x)	0.9	0.7	<b>0.7</b>	<b>0.7</b>
RoE (%)	35.2	39.1	<b>32.1</b>	<b>31.4</b>
EV/EBITDA (x)	6.5	5.2	<b>4.3</b>	<b>3.3</b>
BVPS (INR)	5.9	8.1	<b>10.8</b>	<b>14.5</b>
P/BV (x)	3.5	2.5	<b>1.9</b>	<b>1.4</b>
Adj EPS (INR)	1.8	2.7	<b>3.0</b>	<b>4.0</b>
Adj P/E (x)	11.1	7.5	<b>6.7</b>	<b>5.1</b>

- ◆ We expect revenues to grow by 20% in FY12E and by 25% in FY13E on the back of capacity expansion and addition of new customers.
- ◆ We expect replacement market to contribute 12% of the revenues in FY12 and 7% revenue share in the non automotive space.
- ◆ The company will be able to sustain the operating margins at ~16.5% in FY12. In FY13 we can see an uptick in operating margins on the back of improvement in revenue share of non automotive and replacement market segment.
- ◆ With positive free cash flows the company would be able to meet its capex requirements without straining the balance sheet with a sustainable debt equity level of 0.7:1
- ◆ Improvement in earnings would lead to RoE over 30%

---

**Research Analyst**

Afshan Sayyad +91 22 40023026 afshan@kmglobal.in

---

**Head of Research**

Aditya Damani, CFA +91 22 22630125 aditya@kmglobal.in

---

**Head Office**

4th Floor, Surya Mahal  
5, Burjorji Bharucha Marg  
Fort  
Mumbai-400001

Disclaimer : This document has been prepared by KM Global Finserv Pvt. Ltd. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. KM Global Finserv Pvt. Ltd or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any information contained in this report. The user assumes the entire risk of any use made of this information. We and our affiliates, group companies, officers, directors, and employees may have potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KM Global Finserv Pvt. Ltd. and affiliates/ group companies to any registration or licensing requirements within such jurisdiction.