

Dated: 16/12/2005

SUPRAJIT ENGINEERING LIMITED

BSECODE: 532509
EQUITY CAPITAL: 12.0 CR
CMP: 168

NSE CODE: SUPRAJIT
Industry: AUTO ANCILLARY
TARGET: 230

BACKGROUND

Suprajit Engineering Ltd (SEL) was established in 1985 and started manufacturing high quality liner cables as per Japanese standards for the automotive industry in 1987. Today it caters to a wide spectrum of automotive and non-automotive cable requirements and achieved phenomenal growth, making it India's largest manufacturer of automotive cables. The company has been comfortably beating industry growth in the last few years and expects to do so in the coming years as well.

INTRODUCTION

Suprajit Engineering Ltd is the largest manufacturer of automotive cables in the country. Suprajit manufactures a wide range of automotive cables for two-wheelers as well as the automotive car and heavy vehicle segments. Roughly 80% of the company's total revenues are from automotive cables and the remaining 20% from speedo meters division. In the last three to four years, the company has ventured into the four-wheeler market and now supplies to majors like Tata Motors, Hyundai Motors India, Ford India and General Motors as a Tier-I or Tier-II supplier. The company has six manufacturing plants with employee strength of 700. What inspires us to give a call on it is the fact that: From inception in 1987, The company has grown at a outstanding CAGR of over 30%. The company's market share in two-wheeler OEM market stands at around 60-65% and the total market share is about 45% of the total organized market in India.

EXPORT THRUST

Suprajit's products are fitted into products of major OEM's in the European market like GM, Toyota and Rover through their customers who are Tier-I suppliers. The company is looking to increase the contribution of exports to 15% in total revenue in the next three years. According to the management, "This will be achieved by the thrust we get from the joint venture. We are expecting to earn at least Rs300-400mn in the next three years". Further, it has also entered into two alliances for marketing in the US; one for automotive and the other for non-automotive cables. This has started reaping good results already. The company has already bagged good orders and is receiving good enquiries. Suprajit is currently planning to enter the lucrative north American and European markets and for that its considering the feasibility of setting up a new export oriented unit for supply of cables to these markets. With global major putting continued pressures on its Tier 1 suppliers to reduce the costs, the outsourcing of manufacturing activities and finding new low cost country to manufacture automotive components is increasingly becoming a standard norm. This will give significant new opportunities for Suprajit's products in future

RESEARCH & DEVELOPMENT

Suprajit has a full-fledged R & D center with good team of development staff for both Cables and Speedometers. A new independent and centralized R&D Center is being also set up in Unit-II at Bommasandra Industrial Area for developing various cables for domestic and export markets. The Company has developed many new cables and speedometers for its customers. It has also continued to endeavor to understand customer needs and deliver their requirements. This has given the Company an added advantage with customers and enjoys good customer rating.

CLIENTS

The company has a clientele of topline companies like TVS Motors, Bajaj Auto, and Hero Honda for Cables, Honda Motorcycles and Scooters India, Yamaha (single source), in two-wheelers and Hyundai Motors India and Ford India in four-wheelers. Speedometers are a specific business where they have a presence in two-wheelers only supplying to TVS Motors, Kinetic and LML with most business coming from TVS Motors. The Capacity of its instruments business stands at 0.5mn unit's pa presently.

COMPETITORS

The company faces stiff competition from players like Remsons Industries, TSK (Japanese manufacturer in India), and FICOSA in joint venture with Tatacomp, Samyong Cables and ACEY Engineering. Till three years back, Remsons Industries was the market leader but presently Suprajit is the leader and they lead the market today and are almost twice the size of the next largest competitor. Suprajit was able to take full advantage of problems faced by Remsons Industries that helped the company in registering stupendous growth in revenue. With new products being launched by numerous customers and Company's strategically located plants, give the Company an added edge over the competitors.

FUTURE OUTLOOK

The Automotive Industry grew by 17% for the year 2004-05. The GDP grew by about 6.5%. With a satisfactory monsoon expected and with bulging pockets of India's growing middle class, the automotive industry are expected to grow robustly in the coming years. Also the global automotive giants declaring poor financial performances, the pressure on margins will continue to be significant. This is making global majors to put tremendous pressures on their suppliers to reduce prices. This has positive impact on supplier of components from cost competitive countries like India and China, with increased outsourcing of manufacturing from European / NAFTA countries. Added to this, the Suprajit's continued focus on Quality, Cost, Delivery and Development will give ample opportunities to the Company's products with its customers.

CONCLUSION

The company's new JV with CTP Gills Cables, a Carclo Company, which will cater to four wheeler markets in Europe, will start production by end of Q3FY06. The company expects the JV to generate revenue of Rs. 300 million by FY08. Suprajit has shown a strong consistency in both topline and bottomline for the last several years. We expect the company's net sales for FY06E and FY07E to grow by 25.0% and 20% to Rs 115crs and Rs. 140crs respectively. The bottomline is expected to register growth of 30% and 22% to Rs 12cr cr and Rs 15.5 cr in FY06E and FY07E respectively. The current price of Rs 168 discounts the FY06E and FY07E earnings of Rs. 10 and Rs. 13 by 16.5x and 12.9x respectively. Looking at the growth story and considering its huge potential in both the domestic and the exports market,

WE PUT A BUY RATING ON IT WITH A PRICE TARGET OF 230 IN 7 MONTHS.

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