

Muted performance, growth levers intact

Subros posted muted results in 4QFY19, as it was affected by the slowdown in the PV segment. Revenue/EBITDA declined 6/14% YoY, respectively. EBITDA margin was 10.6% (-92/-52bps YoY/QoQ), due to a weaker product mix and a negative operating leverage. The management has guided for a 5-7% growth in the PV AC business and an overall growth of 10-11% in FY20. The net debt reduced to ₹ 1.5bn in FY19, from ₹ 3.6bn in FY18, which will aid profitability in FY20/21. We recommend Buy, with a TP ₹ 323 (based on 21x E EPS).

In the past one year, Subros's market share has improved by 200bps to 42% in the PV ACS segment, as the company won new business (for models like the new Ertiga, new swift, Nexon and Marazzo etc), wallet share from key OEMs (SOB: Maruti Suzuki- 74% Tata Motors - 35%. M&M -30% and Nissan-25%) rose, and there was a shift in demand towards petrol variants. The growth visibility of new businesses, such as truck/bus ACs, radiators and home ACs, is strong and provides scale and diversification. In addition, increased commitment by Denso (recently increased stake to 20%) will ensure that Subros is well positioned to benefit from the technology shift in the thermal products domain. We expect an EPS growth of 21% CAGR over FY19-21E, factoring a 9% CAGR in revenue, a 30bps margin expansion, and a significant reduction in interest cost.

Focus on Home AC segment

The company has acquired certain assets (plant and machinery) from Zamil's to strengthen its home AC segment. It has already received SOPs to the tune of ₹ 900mn from Havells and Voltas, amongst other OEMs. The company will manufacture cooling coils (condenser), evaporator etc., whereas the rest of the products will be sourced from third parties. The company is targeting an incremental revenue of ₹ 2-3bn over three-year period from this business. The PBT margin from this segment is expected to be lower in the initial years (3-3.5%), versus 5-6% from the existing business.

Q4FY19 Result (₹ Mn)

Particulars	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Revenue	5,181	5,522	(6.2)	5,107	1.4
Total Expense	4,631	4,885	(5.2)	4,539	2.0
EBITDA	550	637	(13.7)	568	(3.3)
Depreciation	206	242	(14.7)	195	5.6
EBIT	343	395	(13.1)	373	(7.9)
Other Income	19	(4)	(570.7)	(16)	(224.1)
Interest	68	115	(40.5)	80	(14.9)
EBT	294	276	(13.1)	277	6.2
Tax	132	90	46.5	105	25.6
RPAT	162	186	(12.9)	172	(5.7)
APAT	162	186	(12.9)	172	(5.7)
			(bps)		(bps)
Gross Margin (%)	30.1	30.9	(84)	31.1	(105)
EBITDA Margin (%)	10.6	11.5	(92)	11.1	(52)
NPM (%)	3.1	3.4	(24)	3.4	(24)
Tax Rate (%)	45.0	32.7	1225	38.0	696
EBIT Margin (%)	6.6	7.2	(53)	7.3	(68)

CMP	₹ 253
Target / Upside	₹ 323 / 28%
BSE Sensex	38,988
NSE Nifty	11,709

Scrip Details

Equity / FV	₹ 131mn / ₹ 2
Market Cap	₹ 17bn
	US\$ 237mn
52-week High/Low	₹ 302/₹ 225
Avg. Volume (no)	44,606
NSE Symbol	SUBROS
Bloomberg Code	SUBR IN

Shareholding Pattern Mar'19(%)

Promoters	36.8
MF/Banks/FIs	6.6
FIIIs	0.6
Public / Others	56.1

Valuation (x)

	FY19A	FY20E	FY21E
P/E	20.8	16.3	14.1
EV/EBITDA	7.9	6.9	5.7
ROE (%)	14.0	14.0	14.2
RoACE (%)	14.2	13.2	13.6

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	21,245	23,366	25,339
EBITDA	2,281	2,524	2,787
PAT	761	1,014	1,172
EPS (₹)	12.2	15.5	18.0

Analyst: Abhishek Jain

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Kushal Shah

Tel: +91 22 40969768

E-mail: kushals@dolatcapital.com

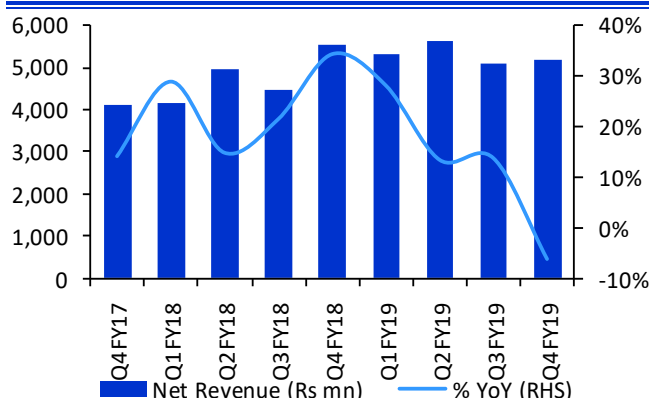
Associate: Ketul Dalal

Tel: +91 22 40969770

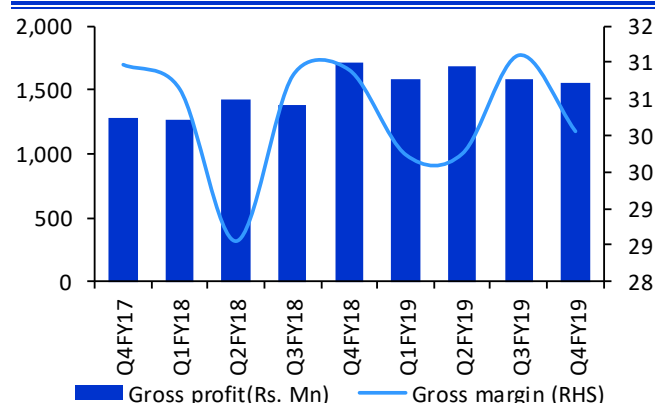
E-mail: ketuld@dolatcapital.com

Concall Highlights

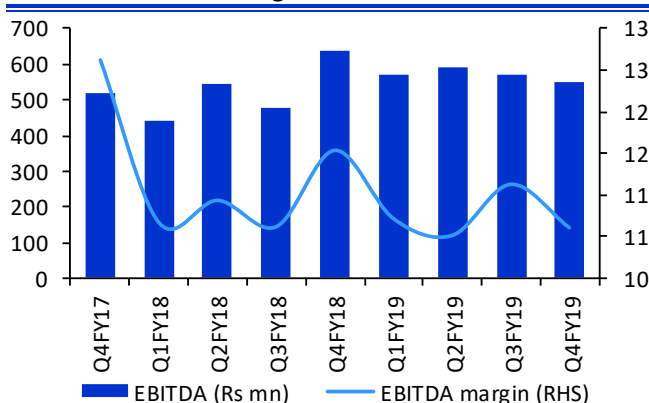
- Management has guided for 5-7% growth in PV AC business and overall growth of ~10-11% in FY20.
- FY19 revenue segmentation: -
 - CV – ₹ 650mn
 - PV – ₹ 17bn (~80-85% utilization)
 - Radiator – ₹ 2.37bn
 - Bus – ₹ 350mn
 - Railways and reafers – ₹ 80mn
 - Home AC – ₹ 40mn.
- PV market share in FY19 stands at 42% as compared to 40% market share in FY18. (**Business share:** Maruti Suzuki - 74% Tata Motors – 35%. M&M – 30% and Nissan – 25%).
- Expecting another market share gain of ~2% in the PV segment over FY20-21.
- Management is focusing on expanding the non-car business going forward for the next leg of growth (~9% of total revenue in FY19).
- The company has aligned production at Sanand plant (new Swift and Baleno) according to 2 shift production at Suzuki plant. Volume has increased to 1800/units per day production.
- SOP have started for Marazo, Ertica and Wagon R d. The company also started supplying to Suzuki Indonesia through MSIL.
- The company has reached to 1mn production units for ECM radiators in FY19.
- Management has guided for maintenance capex of ₹ 600-700mn in FY20.
- Gross debt for FY19 has reduced by ₹ 1.25bn to ₹ 2.44bn.
- Management has indicated reduction of ~1-2% in import content (~30% in Q3FY19) over the next 2 years.

Exhibit 1: Revenue Declined on Slowdown in PV's


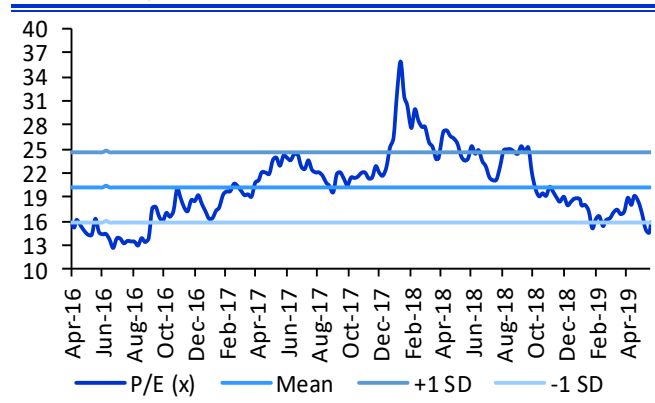
Source: DART, Company

Exhibit 2: Gross margin Under Pressure


Source: DART, Company

Exhibit 3: EBITDA Margin Contracted YoY


Source: DART, Company

Exhibit 4: P/E Band – Near Historical Low


Source: DART, Company

Exhibit 5: Assumption Sheet

Segment ₹ mn	FY17	FY18	FY19A	FY20E	FY21E
Revenue from AC Supply in PV	14,465	15,949	17,705	18,420	19,915
Revenue from Other new Verticals	985	3,130	3,490	4,762	5,486
CV & buses	480	680	1,000	1,150	1,323
Radiator	370	2,200	2,370	2,512	2,713
Home AC	25	50	40	700	1,000
Trans. refrigeration	10	50	30	100	130
Railways	100	150	50	300	320
Other Operating income	45	50	50	52	53
Total	15,495	19,129	21,245	23,234	25,454

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	19,129	21,245	23,366	25,339
Total Expense	17,029	18,964	20,843	22,552
COGS	13,345	14,850	16,333	17,712
Employees Cost	1,881	2,065	2,267	2,458
Other expenses	1,803	2,049	2,243	2,382
EBIDTA	2,100	2,281	2,524	2,787
Depreciation	920	789	889	974
EBIT	1,180	1,493	1,634	1,813
Interest	412	422	233	190
Other Income	74	103	90	100
Exc. / E.O. items	(18)	(33)	0	0
EBT	824	1,140	1,491	1,723
Tax	218	378	477	551
RPAT	606	761	1,014	1,172
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	624	795	1,014	1,172

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	120	131	131	131
Minority Interest	0	0	0	0
Reserves & Surplus	3,928	6,671	7,587	8,661
Net Worth	4,048	6,801	7,718	8,791
Total Debt	3,864	2,441	1,941	1,581
Net Deferred Tax Liability	0	13	13	13
Total Capital Employed	7,911	9,254	9,671	10,385

Applications of Funds

Net Block	7,126	7,128	7,120	7,145
CWIP	469	633	433	800
Investments	25	23	25	25
Current Assets, Loans & Advances	5,367	6,023	7,114	8,461
Inventories	2,396	2,492	2,817	3,055
Receivables	1,614	1,673	1,792	1,874
Cash and Bank Balances	198	899	1,112	2,155
Loans and Advances	283	352	504	504
Other Current Assets	876	606	888	873
Less: Current Liabilities & Provisions	5,076	4,552	5,021	6,047
Payables	4,099	3,899	3,712	4,386
Other Current Liabilities	977	653	1,309	1,661
Net Current Assets	291	1,471	2,093	2,414
Total Assets	7,911	9,254	9,671	10,385

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	30.2	30.1	30.1	30.1
EBIDTA Margin	11.0	10.7	10.8	11.0
EBIT Margin	6.2	7.0	7.0	7.2
Tax rate	26.4	33.2	32.0	32.0
Net Profit Margin	3.2	3.6	4.3	4.6
(B) As Percentage of Net Sales (%)				
COGS	69.8	69.9	69.9	69.9
Employee	9.8	9.7	9.7	9.7
Other	9.4	9.6	9.6	9.4
(C) Measure of Financial Status				
Gross Debt / Equity	1.0	0.4	0.3	0.2
Interest Coverage	2.9	3.5	7.0	9.6
Inventory days	46	43	44	44
Debtors days	31	29	28	27
Average Cost of Debt	10.4	13.4	10.6	10.8
Payable days	78	67	58	63
Working Capital days	6	25	33	35
FA T/O	2.7	3.0	3.3	3.5
(D) Measures of Investment				
AEPS (₹)	9.6	12.2	15.5	18.0
CEPS (₹)	23.7	24.3	29.2	32.9
DPS (₹)	1.0	1.3	1.5	1.5
Dividend Payout (%)	10.6	10.7	9.6	8.4
BVPS (₹)	62.0	104.3	118.3	134.8
RoANW (%)	16.1	14.0	14.0	14.2
RoACE (%)	13.4	14.2	13.2	13.6
RoAIC (%)	15.6	18.6	19.3	21.6
(E) Valuation Ratios				
CMP (₹)	253	253	253	253
P/E	26.4	20.8	16.3	14.1
Mcap (₹ Mn)	16,505	16,505	16,505	16,505
MCap/ Sales	0.9	0.8	0.7	0.7
EV	20,170	18,046	17,333	15,930
EV/Sales	1.1	0.8	0.7	0.6
EV/EBITDA	9.6	7.9	6.9	5.7
P/BV	4.1	2.4	2.1	1.9
Dividend Yield (%)	0.4	0.5	0.6	0.6
(F) Growth Rate (%)				
Revenue	24.6	11.1	10.0	8.4
EBITDA	25.2	8.6	10.6	10.4
EBIT	47.8	26.5	9.5	10.9
PBT	906.0	38.3	30.9	15.5
APAT	40.7	27.3	27.6	15.5
EPS	40.7	27.3	27.6	15.5

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	2,931	1,275	1,921	3,018
CFI	(2,052)	(954)	(628)	(1,367)
CFF	(765)	149	(850)	(607)
FCFF	880	322	1,239	1,650
Opening Cash	83	198	669	1,112
Closing Cash	198	669	1,112	2,155

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Ashwani Kandoi	AVP – Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager – Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. 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 Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
