

Decent show amid tough environment, growth levers intact

Subros 1QFY20, revenue beat estimate to ₹ 5.7bn (+7% YoY) led by wining new business (HVAC for new Wagon R and AC kit for Renault Nissan for Brazil facility) and incremental revenue from Home AC business (₹ 620mn). EBITDA margin contracted by 111bpsYoY to 9.6 % on account of weaker product mix (low margin in home AC). Despite the slowdown in PVs segment Subros' core PV AC business managed to grow in single digit in 1Q led by shift in demand towards petrol variants plus rising wallet share in key OEMs. Moreover, traction in home AC segment (led by increasing localization and increased demand from online players) is mitigating the impact of slowdown in Automotive sales. The net debt reduced to ₹ 2bn in 1QFY20, from ₹ 3.6bn in FY18, which will aid profitability in FY20/21. We recommend Buy, with a TP ₹ 260 (based on 18x FY21E EPS).

Subros has gained market share by 300bps to 45% in 1Q, due to winning business from MSIL i.e. new Wagon-R and Renault Nissan (export market) and expect to benefit further as the share of diesel vehicles falls. 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 9% CAGR over FY19-21E, factoring a 5% CAGR in revenue, and a significant reduction in interest cost.

Home AC(RAC)- Scalable business

Recently the company has bought the assets of Zamil for ₹ 115mn, which enables them to supply components to air conditioner manufacturers including Voltas, Havells. Online sales for ACs has now reached to 12% of total which was 3% two years back, as online players don't have their own manufacturing plants, this is beneficial for contract manufacturer like Subros. Management has increased RAC revenue guidance from ₹ 1bn to ₹ 1.25bn during FY20 and targeting to scale it ₹ 3bn in next 2-3 years. 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.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	5,722	5,317	7.6	5,181	10.5
Total Expense	5,171	4,746	9.0	4,631	11.7
EBITDA	551	571	(3.5)	550	0.3
Depreciation	215	188	14.8	206	4.3
EBIT	336	384	(12.4)	343	(2.1)
Other Income	23	41	(43.8)	19	19.7
Interest	145	140	3.4	68	112.6
EBT	627	251	150.0	294	113.0
Tax	209	61	246.0	132	58.1
RPAT	418	191	119.2	162	157.8
APAT	161	191	(15.5)	162	(0.6)
			(bps)		(bps)
Gross Margin (%)	28.6	29.7	(113)	30.1	(146)
EBITDA Margin (%)	9.6	10.7	(111)	10.6	(98)
NPM (%)	7.3	3.6	371	3.1	417
Tax Rate (%)	33.4	24.1	929	45.0	(1159)
EBIT Margin (%)	5.9	7.2	(134)	6.6	(75)

CMP	₹ 192
Target / Upside	₹ 260 / 36%
BSE Sensex	36,940
NSE Nifty	10,926

Scrip Details

Equity / FV	₹ 131mn / ₹ 2
Market Cap	₹ 12bn
	US\$ 175mn
52-week High/Low	₹ 302/₹ 163
Avg. Volume (no)	24,295
NSE Symbol	SUBROS
Bloomberg Code	SUBR IN

Shareholding Pattern Jun'19(%)

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

Valuation (x)

	FY19A	FY20E	FY21E
P/E	15.7	16.6	13.3
EV/EBITDA	6.2	6.3	5.0
ROE (%)	14.0	10.3	11.3
RoACE (%)	14.2	10.3	11.2

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	21,245	21,154	23,267
EBITDA	2,281	2,115	2,443
PAT	761	754	938
EPS (₹)	12.2	11.6	14.4

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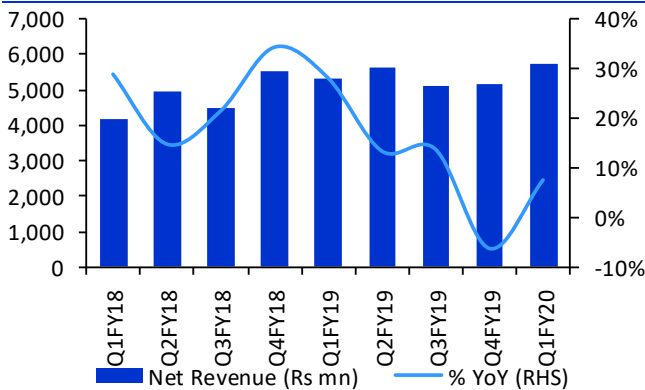
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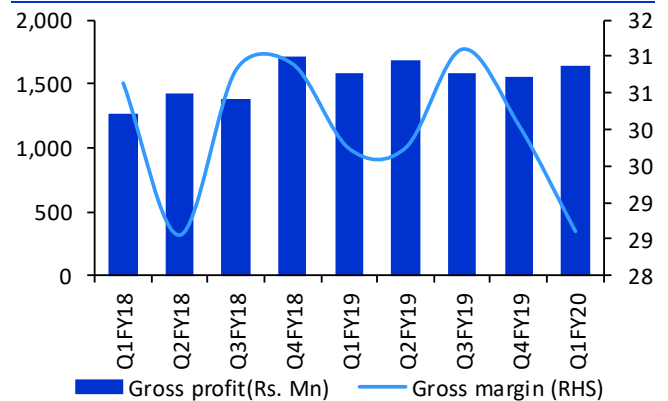
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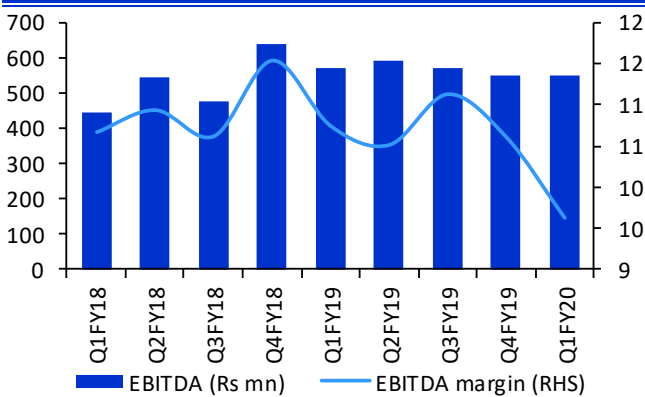
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Exhibit 1: Revenue supported by RAC segment


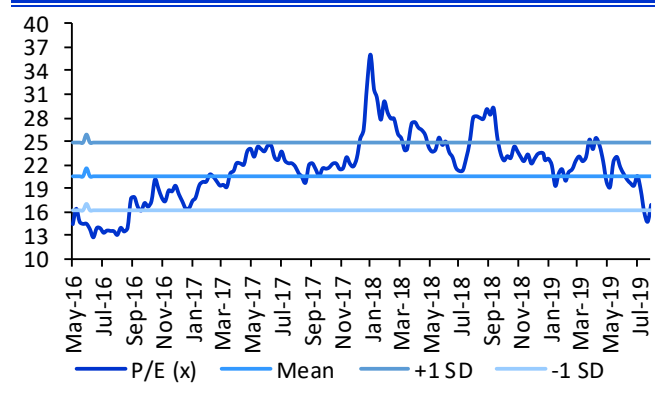
Source: DART, Company

Exhibit 2: Gross margin Under Pressure


Source: DART, Company

Exhibit 3: EBITDA Margin Contracted YoY/QoQ


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	16,340	17,735
Revenue from Other new Verticals	985	3,130	3,490	4,762	5,478
CV & buses	480	680	1,000	850	935
Radiator	370	2,200	2,370	2,512	2,713
Home AC	25	50	40	1,200	1,500
Trans. refrigeration	10	50	30	50	130
Railways	100	150	50	150	200
Other Operating income	45	50	50	52	53
Total	15,495	19,129	21,245	21,154	23,267

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	19,129	21,245	21,154	23,267
Total Expense	17,029	18,964	19,039	20,824
COGS	13,345	14,850	14,956	16,380
Employees Cost	1,881	2,065	2,052	2,257
Other expenses	1,803	2,049	2,031	2,187
EBIDTA	2,100	2,281	2,115	2,443
Depreciation	920	789	889	974
EBIT	1,180	1,493	1,226	1,469
Interest	412	422	233	190
Other Income	74	103	90	100
Exc. / E.O. items	(18)	(33)	413	0
EBT	824	1,140	1,496	1,379
Tax	218	378	329	441
RPAT	606	761	1,167	938
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	624	795	754	938

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	7,740	8,580
Net Worth	4,048	6,801	7,870	8,710
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	9,824	10,304

Applications of Funds

Net Block	7,126	7,128	7,120	7,145
CWIP	469	633	433	800
Investments	25	18	25	25
Current Assets, Loans & Advances	5,367	6,027	6,836	7,920
Inventories	2,396	2,492	2,550	2,805
Receivables	1,614	1,673	1,623	1,721
Cash and Bank Balances	198	899	1,181	1,921
Loans and Advances	283	96	504	504
Other Current Assets	876	867	978	969
Less: Current Liabilities & Provisions	5,076	4,552	4,589	5,587
Payables	4,099	3,899	3,390	4,050
Other Current Liabilities	977	653	1,199	1,537
Net Current Assets	291	1,476	2,247	2,333
Total Assets	7,911	9,254	9,824	10,304

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	30.2	30.1	29.3	29.6
EBIDTA Margin	11.0	10.7	10.0	10.5
EBIT Margin	6.2	7.0	5.8	6.3
Tax rate	26.4	33.2	22.0	32.0
Net Profit Margin	3.2	3.6	5.5	4.0
(B) As Percentage of Net Sales (%)				
COGS	69.8	69.9	70.7	70.4
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	0.2	0.2
Interest Coverage	2.9	3.5	5.3	7.7
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	59	64
Working Capital days	6	25	39	37
FA T/O	2.7	3.0	3.0	3.3
(D) Measures of Investment				
AEPS (₹)	9.6	12.2	11.6	14.4
CEPS (₹)	23.7	24.3	25.2	29.3
DPS (₹)	1.0	1.3	1.5	1.5
Dividend Payout (%)	10.6	10.7	13.0	10.4
BVPS (₹)	62.0	104.3	120.6	133.5
RoANW (%)	16.1	14.0	10.3	11.3
RoACE (%)	13.4	14.2	10.3	11.2
RoAIC (%)	15.6	18.6	14.4	17.3
(E) Valuation Ratios				
CMP (₹)	192	192	192	192
P/E	20.0	15.7	16.6	13.3
Mcap (₹ Mn)	12,493	12,493	12,493	12,493
MCap/ Sales	0.7	0.6	0.6	0.5
EV	16,158	14,034	13,252	12,152
EV/Sales	0.8	0.7	0.6	0.5
EV/EBITDA	7.7	6.2	6.3	5.0
P/BV	3.1	1.8	1.6	1.4
Dividend Yield (%)	0.5	0.7	0.8	0.8
(F) Growth Rate (%)				
Revenue	24.6	11.1	(0.4)	10.0
EBITDA	25.2	8.6	(7.3)	15.5
EBIT	47.8	26.5	(17.9)	19.8
PBT	906.0	38.3	31.3	(7.8)
APAT	40.7	27.3	(5.1)	24.4
EPS	40.7	27.3	(5.1)	24.4
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	3,154	1,834	1,759	2,715
CFI	(2,306)	(1,258)	(628)	(1,367)
CFF	(719)	172	(850)	(607)
FCFF	840	559	1,078	1,348
Opening Cash	23	151	899	1,181
Closing Cash	151	899	1,181	1,921

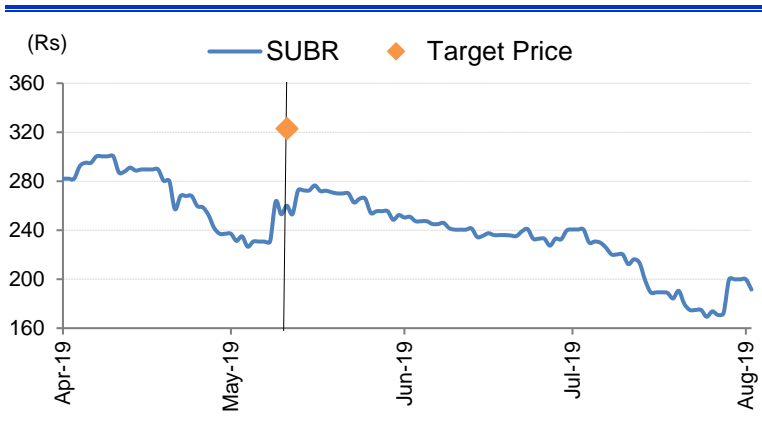
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

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

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
May-19	Buy	323	260

**Price as on recommendation date*

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