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Subros

BUY

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH•PRECISE•ACTIONABLE

Result Update

Deleveraging BS and revival in MSIL volume to drive earnings

- Subros reported a decent performance in Q4FY20, despite several headwinds, including moderation in PV segment, impact of lockdown and input cost pressures. Revenue declined 11.5% YoY to Rs 4.5bn led by slowdown in PV segment and absence of revenue from the home AC segment. EBITDA margin contracted by 153bps YoY to 9.1% on account of negative operating leverage.
- The Company is the key player in the Automotive AC market and commands ~45% market share in PV segment. We expect the company to be a key beneficiary of market share of MSIL owing to traction in lower end cars. MSIL accounts for ~70% of revenue for Subros.
- The company is focused on deleveraging its balance sheet (the net debt fell to Rs 300mn in FY20 from Rs 3.6bn in FY18), which should improve profitability in coming years.
- The Company has resumed operation at all plants in phased manner and plant utilization stood at 30-40% in June-20, in line with OEM demand.
- Given the expected recovery in PV sales from Q2FY21 onwards, incremental revenue from new business verticals, reduction in interest cost, and benefit from the lower corporate tax rate, we estimate Subros to potentially report a PAT CAGR of 70% over FY21E-FY23E. We roll forward our target multiple to FY23E and value the stock at Rs 231 (based on 17x FY23E EPS). Recommend BUY.

Well poised to ride the PV recovery

Subros is the market leader in the Indian auto air-conditioning market with a 45% market share in automotive AC. Subros is catering to close to 77% of the total AC requirement of MSIL which entails ~70% of Subros' revenue. We expect MSIL to gain market share owing to increasing preference of lower end compact cars. In addition, shift in demand towards petrol variant also positive for the company.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	4,585	5,181	(11.5)	4,656	(1.5)
Total Expense	4,169	4,631	(10.0)	4,174	(0.1)
EBITDA	416	550	(24.3)	482	(13.7)
Depreciation	228	206	10.3	234	(2.9)
EBIT	189	343	(45.1)	248	(24.0)
Other Income	86	19	346.1	23	269.5
Interest	52	68	(24.0)	75	(31.0)
EBT	223	294	(24.3)	196	13.6
Tax	62	132	(53.2)	61	0.8
RPAT	161	162	(0.7)	135	19.4
APAT	161	162	(0.7)	135	19.4
			(bps)		(bps)
Gross Margin (%)	30.1	30.1	0	30.1	(1)
EBITDA Margin (%)	9.1	10.6	(153)	10.4	(128)
NPM (%)	3.5	3.1	38	2.9	61
Tax Rate (%)	27.8	45.0	(1719)	31.3	(351)
EBIT Margin (%)	4.1	6.6	(252)	5.3	(121)

CMP	Rs 176
Target / Upside	Rs 231 / 31%
BSE Sensex	34,969
NSE Nifty	10,312

Scrip Details

Equity / FV	Rs 131mn / Rs 2
Market Cap	Rs 12bn
	US$ 153mn
52-week High/Low	Rs 299/Rs 118
Avg. Volume (no)	1,97,519
NSE Symbol	SUBROS
Bloomberg Code	SUBR IN

Shareholding Pattern Mar'20(%)

Promoters	36.8
MF/Banks/FIs	8.8
FIIs	32.6
Public / Others	21.9

Valuation (x)

	FY21E	FY22E	FY23E
P/E	37.4	16.3	13.0
EV/EBITDA	8.5	5.8	4.7
ROE (%)	4.0	8.7	10.2
RoACE (%)	5.3	9.5	10.7

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	17,182	20,579	23,660
EBITDA	1,409	2,048	2,390
PAT	308	704	888
EPS (Rs.)	4.7	10.8	13.6

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DOLAT CAPITAL

Diversifying revenue mix

Currently, car AC's attribute to 78% of revenue. The company is focusing on other segments including commercial vehicles, ECM(radiator), railways and home AC's and is targeting to grow in these segments. The home AC business potentially represents an incremental revenue opportunity of Rs 2.5-3bn in the next 2-3 years (driven by rising localization, increasing demand from online players, and mitigation of the slowdown in automotive sales).

Exhibit 1: Actual vs estimated performance

(Rs mn)	Actual	Estimated	% Variance	Comments
Revenue	4,585	4,276	7	
EBITDA	416	409	2	
EBITDA margin (%)	9.1	9.6	(50)bps	
PAT	161	115	40	Higher other income

Source: Company, DART

Exhibit 2: Change in Estimates

(Rs Mn)	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	17,182	18,020	(4.6)	20,579	21,125	(3)
EBITDA	1,409	1,712	(17.7)	2,048	2,186	(6)
EBITDA Margin (%)	8.20	9.50	(130)bps	9.95	10.35	(40)bps
PAT	308	453	(32.1)	704	742	(5)
EPS (Rs)	4.7	7	(32.1)	10.8	11	(5)

Source: Company, DART

Exhibit 3: Assumption Sheet

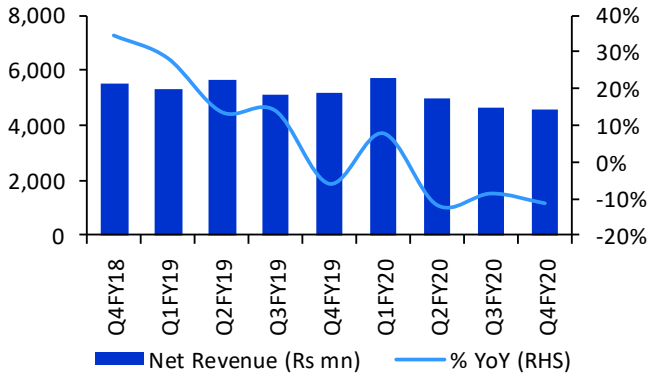
Segment Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from AC Supply in PV	**15,949**	**17,705**	**15,544**	**13,530**	**15,441**	**17,640**
Revenue from other new Verticals	**3,130**	**3,490**	**4,241**	**3,492**	**4,987**	**5,869**
CV & buses	680	1,000	800	640	742	846
Radiator	2,200	2,370	2,391	2,152	2,475	2,673
Home AC	50	40	930	500	1,500	2,000
Trans. refrigeration	50	30	100	100	120	150
Railways	150	50	20	100	150	200
Other Operating income	50	50	143	160	150	150
Total	**19,129**	**21,245**	**19,928**	**17,182**	**20,579**	**23,660**

Source: Company, DART

Conference Call Highlight

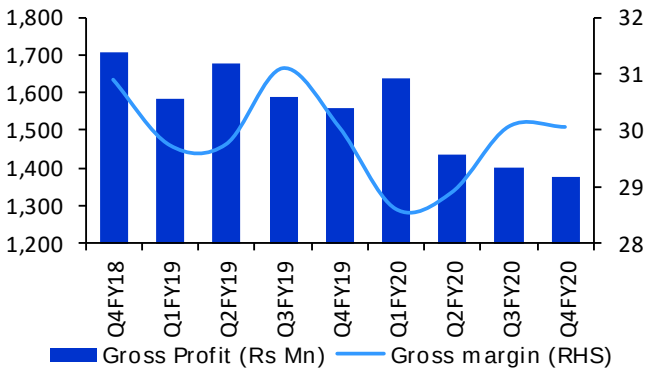
- The Company has resumed operations at all plants in a phased manner and plant utilization level is 30-40% in June, in line with the OEM demand. The company is focused on adding new products to its product portfolio. Expect ~20% of business to come from adding new business in the PV segment.
- In FY20, revenue contribution from PV and non-PV segments was 90% and 10% respectively. Subros outpaced underlying industry growth (revenue de-grew 6% vs 18% de-growth in PV industry) led by gain in market share.
- Revenue contribution for FY20 was as follows: PV: 78%, ECM: 12%, Buses- 2%, Truck & ventilator 2%, Home AC 5% and balance from aftermarket). SOB with MSIL stood at 77%.
- Company is taking several initiatives (including reduction manpower and administrative cost) to reduce costs and protect margins. Monthly fixed cost is ~ Rs. 120mn after cost rationalization done till date.
- Narasapura plant in Gujarat has started production and it is stabilizing in line with OEM demand. The Nalagarh plant received all necessary approval for production.
- During Q4FY20, revenue from RAC segment was NIL due to transition of product line, However, production has started from new facilities.
- Subros has made upgrades in its AC products from conventional air cooling to engine cooling technology in collaboration with Denso, which is already launched with Wagon R.
- Subros is also upgrading its compressor technology from fixed speed rotary to main rotary technology and is also looking to foray into the battery cooling product with an EV player.
- The 2.5-liter air filter has been launched in higher end vehicles and aftermarket for better air quality. However, management expects all segments of PV to adopt this technology going forward. Value per content is Rs. 250-400/unit.
- Import content is currently 25% of total sales and dependency on China is only 3-4%. Apart from China, Subros imports content from countries like Thailand, Indonesia and Japan. In Home AC segment, import content is 46%-47%.
- Revenue from the railway segment was impacted due to postponement of several tenders. Management expects the railway division to do better in FY21.
- Capex for FY21 towards new technology and products would be in the range of Rs 600-650m. Tax rate would be 25% for FY21. Average interest cost is expected to be ~8.5% going forward.
- Other income includes Rs. 90mn as forex gain in FY20.
- Market share has improved by 200 bps to 44% in FY20 in PV AC segment

Exhibit 4: Revenue Fell on weak PVs volume



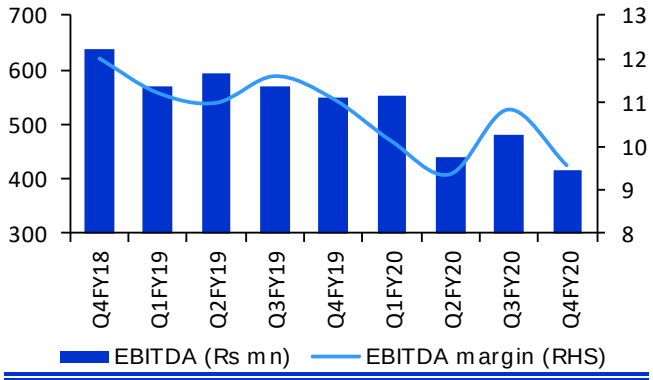
Source: Company, DART

Exhibit 5: Gross margin remains flat YoY/QoQ



Source: Company, DART

Exhibit 6: EBITDA Margin declined



Source: Company, DART

Exhibit 7: P/E Band – Trading near Historical Low

Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	**19,928**	**17,182**	**20,579**	**23,660**
Total Expense	**18,038**	**15,773**	**18,531**	**21,270**
COGS	14,088	12,165	14,498	16,680
Employees Cost	2,073	1,890	2,099	2,366
Other expenses	1,877	1,718	1,934	2,224
EBIDTA	**1,890**	**1,409**	**2,048**	**2,390**
Depreciation	903	933	1,042	1,152
EBIT	**987**	**476**	**1,005**	**1,238**
Interest	363	162	164	158
Other Income	200	100	110	120
Exc. / E.O. items	413	0	0	0
EBT	**1,237**	**413**	**952**	**1,200**
Tax	391	105	247	312
RPAT	846	308	704	888
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**557**	**308**	**704**	**888**

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	131	131	131	131
Minority Interest	0	0	0	0
Reserves & Surplus	7,392	7,648	8,255	8,979
Net Worth	**7,523**	**7,779**	**8,385**	**9,110**
Total Debt	1,126	916	928	869
Net Deferred Tax Liability	164	167	170	174
Total Capital Employed	**8,813**	**8,862**	**9,484**	**10,153**
Applications of Funds				
Net Block	**7,698**	**7,673**	**8,031**	**8,279**
CWIP	397	400	700	700
Investments	18	25	25	25
Current Assets, Loans & Advances	**5,773**	**5,446**	**6,219**	**7,637**
Inventories	2,343	2,071	2,424	2,787
Receivables	1,893	1,695	2,030	2,334
Cash and Bank Balances	909	517	527	1,236
Loans and Advances	94	504	504	504
Other Current Assets	535	658	735	776
Less: Current Liabilities & Provisions	**5,073**	**4,682**	**5,492**	**6,488**
Payables	3,852	3,357	3,963	4,538
Other Current Liabilities	1,221	1,325	1,529	1,950
sub total				
Net Current Assets	701	763	728	1,148
Total Assets	**8,813**	**8,861**	**9,483**	**10,153**

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.3	29.2	29.6	29.5
EBIDTA Margin	9.5	8.2	10.0	10.1
EBIT Margin	5.0	2.8	4.9	5.2
Tax rate	31.6	25.5	26.0	26.0
Net Profit Margin	4.2	1.8	3.4	3.8
(B) As Percentage of Net Sales (%)				
COGS	70.7	70.8	70.5	70.5
Employee	10.4	11.0	10.2	10.0
Other	9.4	10.0	9.4	9.4
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	2.7	2.9	6.1	7.8
Inventory days	43	44	43	43
Debtors days	35	36	36	36
Average Cost of Debt	24.2	15.9	17.7	17.6
Payable days	71	71	70	70
Working Capital days	13	16	13	18
FA T/O	2.6	2.2	2.6	2.9
(D) Measures of Investment				
AEPS (Rs)	8.5	4.7	10.8	13.6
CEPS (Rs)	22.4	19.0	26.8	31.3
DPS (Rs)	0.8	0.8	1.5	2.5
Dividend Payout (%)	9.4	16.9	13.9	18.4
BVPS (Rs)	115.3	119.2	128.5	139.6
RoANW (%)	7.8	4.0	8.7	10.2
RoACE (%)	9.1	5.3	9.5	10.7
RoAIC (%)	12.6	5.9	11.6	13.9
(E) Valuation Ratios				
CMP (Rs)	176	176	176	176
P/E	20.7	37.4	16.3	13.0
Mcap (Rs Mn)	11,511	11,511	11,511	11,511
MCap/ Sales	0.6	0.7	0.6	0.5
EV	11,728	11,909	11,912	11,144
EV/Sales	0.6	0.7	0.6	0.5
EV/EBITDA	6.2	8.5	5.8	4.7
P/BV	1.5	1.5	1.4	1.3
Dividend Yield (%)	0.5	0.5	0.9	1.4
(F) Growth Rate (%)				
Revenue	(6.2)	(13.8)	19.8	15.0
EBITDA	(17.1)	(25.5)	45.3	16.7
EBIT	(33.8)	(51.8)	111.3	23.2
PBT	5.4	(66.6)	130.2	26.1
APAT	(26.9)	(44.7)	128.7	26.1
EPS	(26.9)	(44.7)	128.7	26.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,492	962	1,980	2,525
CFI	(1,001)	(919)	(1,700)	(1,400)
CFF	(1,480)	(435)	(269)	(413)
FCFF	1,510	50	280	1,125
Opening Cash	899	909	517	527
Closing Cash	909	517	527	1,236

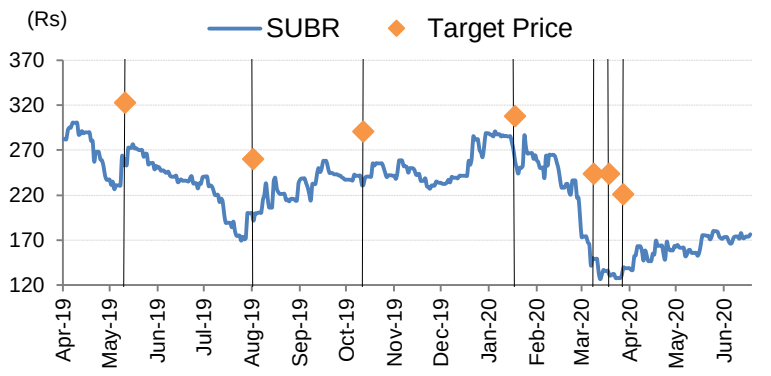
E – Estimates

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 (Rs.)	Price (Rs.)
May-19	Buy	323	260
Aug-19	Buy	260	192
Oct-19	Buy	291	231
Jan-20	BUY	308	258
Mar-20	Buy	244	149
Mar-20	Buy	244	131
Apr-20	Buy	221	140

**Price as on recommendation date*

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