

Well poised to ride the PV recovery

- Subros reported weak performance in Q1FY21, impacted by slowdown in PV segment and the nationwide lockdown. Revenue de-grew 87% YoY to Rs 738mn (vs est Rs 1.4bn). EBITDA turned negative to Rs 299mn (vs est Rs 115mn) due to negative operating leverage. Production in Q1 was equivalent to two weeks of regular working days.
- Management stated that the production is gradually ramping up and now back to 75% of pre-Covid levels. However, system inventory which was piled up due to lockdown to be liquidated in Q2. At present, Subros has Rs 2.4bn worth of inventory (vs normal inventory of Rs 1.9bn).
- Gross debt has increased to Rs 2.4bn as of Q1 end (vs Rs 1.12bn at the end of FY20), due to increase in short term debt. The management expects it to be back to FY20 levels by end of the year. Major capex has been incurred and the company is likely to incur a capex of Rs 500-600mn in FY21.
- We expect the company to be a key beneficiary of recovery in the PV segment and market share gain by MSIL owing to increasing preference for low-end entry-level cars. MSIL accounts for ~70% of revenue for Subros.
- 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 16% over FY20-FY23E. We value the stock at Rs 237 (based on 18x FY23E EPS). Recommend Accumulate.

Proxy play to MSIL's volume recovery

Subros is the market leader in the Indian auto air-conditioning market with a 44% market share in Automotive AC business. Subros is catering to approximately 77% of the total AC requirement of MSIL which entails ~70% of Subros' revenue. As MSIL is looking to ramp up vehicle production to 160,000-170,000 vehicles by October to meet the festive season demand, it is expected to benefit Subros' top line as well. (Contd.)

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	738	5,722	(87.1)	4,585	(83.9)
Total Expense	1,036	5,171	(80.0)	4,169	(75.1)
EBITDA	(299)	551	(154.2)	416	(171.7)
Depreciation	193	215	(10.4)	228	(15.2)
EBIT	(492)	336	(246.3)	189	(360.8)
Other Income	10	23	(55.0)	86	(87.9)
Interest	48	145	(66.8)	52	(7.1)
EBT	(529)	627	(184.4)	223	(337.6)
Tax	(289)	209	(238.1)	62	(566.9)
RPAT	(240)	418	(157.5)	161	(249.3)
APAT	(240)	129	(286.8)	161	(249.3)
			(bps)		(bps)
Gross Margin (%)	30.8	28.6	216	30.1	70
EBITDA Margin (%)	(40.5)	9.6	NA	9.1	NA
NPM (%)	(32.6)	7.3	NA	3.5	NA
Tax Rate (%)	54.6	33.4	NA	27.8	NA
EBIT Margin (%)	(66.6)	5.9	NA	4.1	NA

CMP	Rs 208
Target / Upside	Rs 237 / 14%
BSE Sensex	38,354
NSE Nifty	11,308

Scrip Details

Equity / FV	Rs 131mn / Rs 2
Market Cap	Rs 14bn
	US\$ 182mn
52-week High/Low	Rs 299/Rs 118
Avg. Volume (no)	1,60,842
NSE Symbol	SUBROS
Bloomberg Code	SUBR IN

Shareholding Pattern Jun'20(%)

Promoters	36.8
MF/Banks/FIs	8.3
FIIIs	0.6
Public / Others	54.4

Valuation (x)

	FY21E	FY22E	FY23E
P/E	81.7	20.6	15.8
EV/EBITDA	11.3	7.0	5.5
ROE (%)	2.2	8.3	10.1
RoACE (%)	4.2	9.1	10.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	15,664	19,634	22,125
EBITDA	1,253	1,944	2,257
PAT	166	659	859
EPS (Rs.)	2.6	10.1	13.2

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The company is also focusing on other segments including commercial vehicles, ECM (radiator), railways and home ACs with an attempt towards diversifying its revenue base. 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	738	1,431	(48)	
EBITDA	(299)	(115)	159	Lower than anticipated production level and cost control measures.
EBITDA margin (%)	(40.48)	(8.05)	NA	
PAT	(240)	(251)	(4)	

Source: Company, DART

Exhibit 2: Change in Estimates

(Rs Mn)	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	15,664	17,182	(8.8)	19,634	20,579	(4.6)
EBITDA	1,253	1,409	(11.1)	1,944	2,048	(5.1)
EBITDA Margin (%)	8.00	8.20	(20)bps	9.90	9.95	(5)bps
PAT	166	308	(46.0)	659	704	(6.4)
EPS (Rs)	2.6	4.7	(46.0)	10.1	10.8	(6.4)

Source: Company, DART

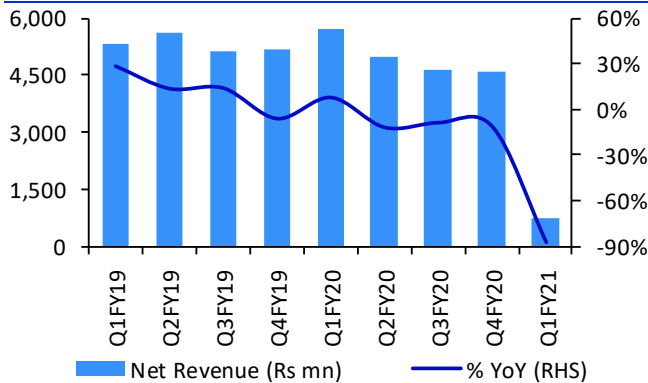
Exhibit 3: Assumption Sheet

Segment Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from AC Supply in PV	15,949	17,705	15,544	12,092	14,497	16,106
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	80	150	150
Total	19,129	21,245	19,928	15,664	19,634	22,125

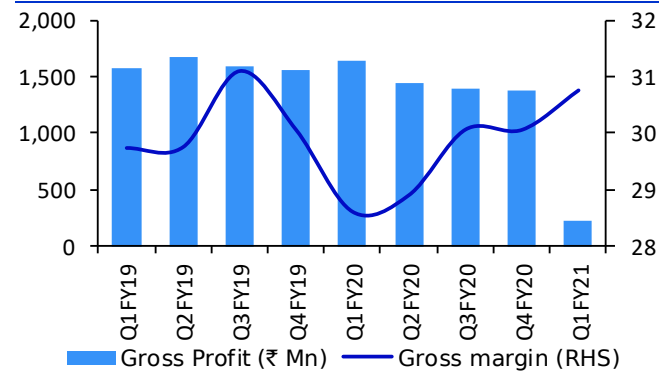
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Conference Call Highlight

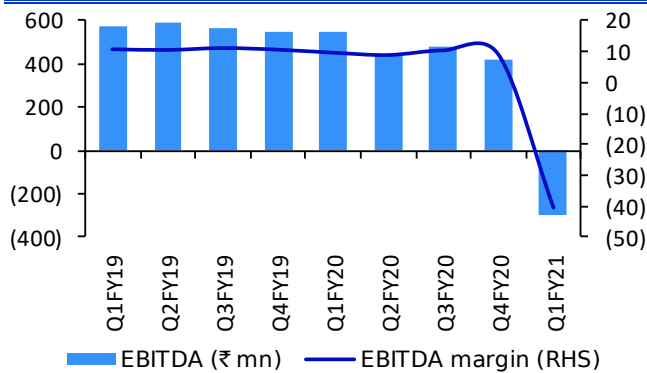
- Due to lockdown, production in the entire quarter was equivalent to just about two weeks of regular working. Manufacturing operations at all plants have resumed gradually in a phased manner.
- Revenue breakup for Q1FY21 – PV segment: Rs 580mn PV, Non-air conditioner: Rs 160mn.
- Subros' CV volume declined 69% YoY (vs industry decline of 90%), due to orders for ambulances (1,000 units worth Rs 80-90mn).
- Q2FY21 is expected to be sequentially better with production back to 75% of pre-Covid levels and ramping up sequentially. No major challenges on the supply chain front. Breakeven capacity is at 60-65%.
- Subros has maintained its market share at 44% in PV segment at FY20 level (42% share in FY19). Company's key competitors are Hanon, Mahale and Calsonic.
- Raw material costs are lower due to favorable product mix. Inventory piled up before lockdown need liquidation. At present, Subros has Rs 2.4bn worth of inventory (vs normal of Rs 1.9bn). Total import content is 26-28% of total revenue; import content from China attributes to 5.2% of total revenue. The company is focusing on localization to de-risk forex impact.
- Consolidation of plants, shift optimization and working days to help in cost optimization and expand EBITDA and RoCE.
- Focus on business expansion in Bus, Railways, Truck AC and Refrigeration Trucks. All developments of new products are on schedule. Products are under validation for Railway coach air-conditioners. Business opportunity stands at Rs 300-350mn.
- Discussions are ongoing with Denso on the engine cooling technology, which are expected to materialize by FY21 end.
- Lower depreciation was on account of single shift operations due to low production output. Major capex has been completed and the company is likely to incur capex of Rs 500-600mn per annum (including maintenance capex of Rs 150-200mn) over the coming 3 years.
- Subros stands to benefit from ban of Chinese imports, which will reflect from November onwards.
- Government push for domestic manufacturing of room AC will benefit the company in its B2B vertical. Key clients in room AC segment include Voltas, Havells, Haier and other small players. Subros is currently manufacturing all types of AC units.
- Subros is indirectly exporting to Indonesia for Suzuki and to Brazil for Renault products. However, company is primarily focusing on domestic market operations.
- Gross debt stands at Rs 2.44bn as of Q1 end (increased short term debt) which is likely to be repaid by Q3. Debt level is expected to back to similar level of FY20 of Rs 1.12bn by the end of the year.
- Share of Business: Mahindra is 22%; Tata is 15% and Renault Nissan is 25%.
- Current capacity for HVAC is 2mn, Compressor 1.5mn, ECM 1.3mn.

Exhibit 4: Revenue declined due to weak PVs volume


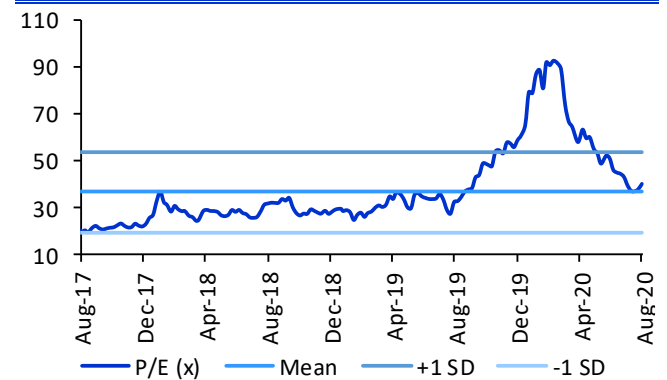
Source: Company, DART

Exhibit 5: Gross margin improved YoY/QoQ


Source: Company, DART

Exhibit 6: EBITDA turned negative


Source: Company, DART

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


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	19,928	15,664	19,634	22,125
Total Expense	18,038	14,411	17,690	19,868
COGS	14,088	11,121	13,901	15,620
Employees Cost	2,073	1,723	1,963	2,190
Other expenses	1,877	1,566	1,826	2,058
EBIDTA	1,890	1,253	1,944	2,257
Depreciation	903	921	964	1,027
EBIT	987	332	979	1,230
Interest	363	208	198	189
Other Income	200	100	110	120
Exc. / E.O. items	413	0	0	0
EBT	1,237	223	891	1,161
Tax	391	57	232	302
RPAT	846	166	659	859
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	557	166	659	859

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	7,507	8,068	8,765
Net Worth	7,523	7,637	8,199	8,895
Total Debt	1,126	1,426	1,316	1,206
Net Deferred Tax Liability	164	167	170	174
Total Capital Employed	8,813	9,230	9,685	10,275

Applications of Funds

Net Block	7,435	7,276	7,011	6,785
CWIP	660	509	809	809
Investments	18	25	25	25
Current Assets, Loans & Advances	5,773	5,417	6,801	8,363
Inventories	2,343	1,888	2,313	2,607
Receivables	1,893	1,545	1,937	2,182
Cash and Bank Balances	909	847	1,329	2,320
Loans and Advances	94	504	504	504
Other Current Assets	535	634	718	750
Less: Current Liabilities & Provisions	5,073	3,998	4,962	5,708
Payables	3,852	2,764	3,490	3,865
Other Current Liabilities	1,221	1,234	1,472	1,843
sub total				
Net Current Assets	701	1,420	1,839	2,656
Total Assets	8,813	9,230	9,685	10,275

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.3	29.0	29.2	29.4
EBIDTA Margin	9.5	8.0	9.9	10.2
EBIT Margin	5.0	2.1	5.0	5.6
Tax rate	31.6	25.5	26.0	26.0
Net Profit Margin	4.2	1.1	3.4	3.9
(B) As Percentage of Net Sales (%)				
COGS	70.7	71.0	70.8	70.6
Employee	10.4	11.0	10.0	9.9
Other	9.4	10.0	9.3	9.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.2	0.2	0.1
Interest Coverage	2.7	1.6	4.9	6.5
Inventory days	43	44	43	43
Debtors days	35	36	36	36
Average Cost of Debt	24.2	16.3	14.5	15.0
Payable days	71	64	65	64
Working Capital days	13	33	34	44
FA T/O	2.7	2.2	2.8	3.3
(D) Measures of Investment				
AEPS (Rs)	8.5	2.6	10.1	13.2
CEPS (Rs)	22.4	16.7	24.9	28.9
DPS (Rs)	0.8	0.8	1.5	2.5
Dividend Payout (%)	9.4	31.4	14.8	19.0
BVPS (Rs)	115.3	117.1	125.7	136.4
RoANW (%)	7.8	2.2	8.3	10.1
RoACE (%)	9.1	4.2	9.1	10.5
RoAIC (%)	12.6	4.1	11.7	15.1
(E) Valuation Ratios				
CMP (Rs)	208	208	208	208
P/E	24.4	81.7	20.6	15.8
Mcap (Rs Mn)	13,592	13,592	13,592	13,592
MCap/ Sales	0.7	0.9	0.7	0.6
EV	13,809	14,171	13,579	12,477
EV/Sales	0.7	0.9	0.7	0.6
EV/EBITDA	7.3	11.3	7.0	5.5
P/BV	1.8	1.8	1.7	1.5
Dividend Yield (%)	0.4	0.4	0.7	1.2
(F) Growth Rate (%)				
Revenue	(6.2)	(21.4)	25.3	12.7
EBITDA	(17.1)	(33.7)	55.1	16.1
EBIT	(33.8)	(66.4)	195.3	25.6
PBT	5.4	(81.9)	298.9	30.4
APAT	(26.9)	(70.1)	296.2	30.4
EPS	(26.9)	(70.1)	296.2	30.4

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,492	527	1,911	2,289
CFI	(1,001)	(619)	(1,000)	(800)
CFF	(1,480)	29	(426)	(494)
FCFF	1,510	(84)	911	1,489
Opening Cash	899	909	847	1,329
Closing Cash	909	847	1,329	2,320

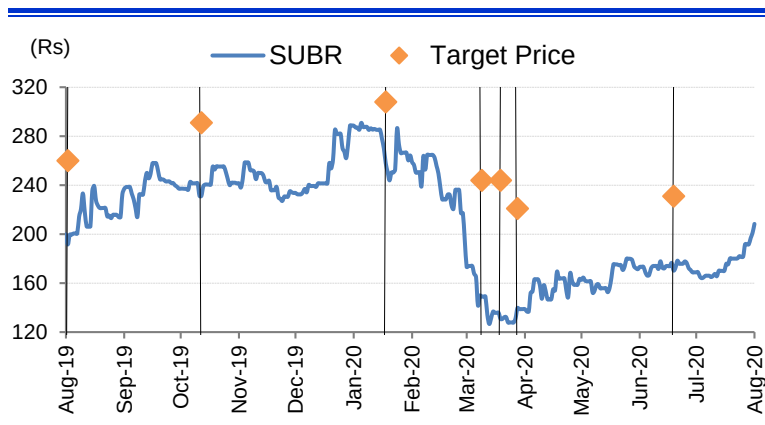
E – Estimates

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.)
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
Jun-20	BUY	231	170

*Price as on recommendation date

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