

### Cruising on the growth track

- Subros demonstrated strong earnings growth in Q2FY21 driven by pick up in the PV segment and cost control measures. EBITDA grew 21% YoY to Rs. 535mn with expanded margin at 11.7% (+280bpsYoY). Gross margin expanded (+180bps YoY) led by better product mix, increased localization and cost control measures
- The management is optimistic of a swift recovery in the PV and Home AC segment in 2HFY21. Despite the washout in 1H, the company expects the Home AC segment to see 15-20% growth in FY21. Current capacity for Home AC segment is 250-300k units and peak revenue may reach to Rs.2.5-3bn in next two years.
- Gross debt has come down to Rs. 1.4bn in Q2 vs 2.4bn in Q1 and management is targeting to reduce it further by Rs. 200-250 mn by year end. Major capex has already been incurred and the company is likely to generate strong FCF from H2FY21 onwards.
- 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 recovery in PV sales, incremental revenue from new business verticals (especially from Home AC), 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 increase our EPS by 18/13% for FY22/23E and upgrade our target price to Rs 297 (based on 20x FY23E EPS). Maintain BUY.

### Home AC (RAC) – Next driver of revenue growth

Recently the government banned imports of AC's with refrigerants. The move is aimed at promoting domestic manufacturing while reducing the imports. We believe this provides an additional opportunity for outsourced manufacturing and subros will also be a key beneficiary. The company has entered into the home AC business through the acquisition of assets of Zamil which enables them to supply components to air conditioner manufacturers including Voltas (Contd.)

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	4,581	4,965	(7.7)	738	521.0
Total Expense	4,046	4,524	(10.6)	1,036	290.5
EBITDA	535	441	21.4	(299)	(279.1)
Depreciation	238	226	5.3	193	23.1
EBIT	297	215	38.3	(492)	(160.5)
Other Income	38	67	(44.1)	10	262.5
Interest	56	92	(39.3)	48	15.4
EBT	279	191	46.4	(529)	(152.8)
Tax	102	58	74.8	(289)	(135.3)
RPAT	177	132	33.9	(240)	(173.8)
APAT	177	132	33.9	(240)	(173.8)
			(bps)		(bps)
Gross Margin (%)	30.7	28.9	182	30.8	(4)
EBITDA Margin (%)	11.7	8.9	280	(40.5)	5215
NPM (%)	3.9	2.7	120	(32.6)	3644
Tax Rate (%)	36.5	30.6	593	54.6	(1806)
EBIT Margin (%)	6.5	4.3	216	(66.6)	7313

CMP	Rs 241
Target / Upside	Rs 297 / 24%
NIFTY	11,897

### Scrip Details

Equity / FV	Rs 131mn / Rs 2
Market Cap	Rs 16bn
	USD 213mn
52-week High/Low	Rs 299/ 118
Avg. Volume (no)	1,09,356
Bloom Code	SUBR IN

Price Performance	1M	3M	12M
Absolute (%)	0	45	4
Rel to NIFTY (%)	(7)	39	0

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	36.8	36.8	36.8
MF/Banks/FIs	8.4	8.3	9.5
FII	0.6	0.6	1.2
Public / Others	54.2	54.4	52.5

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	54.6	20.1	16.2
EV/EBITDA	11.5	7.5	6.1
ROE (%)	3.8	9.6	11.0
RoACE (%)	5.5	9.8	10.9

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	16,624	20,637	22,878
EBITDA	1,413	2,064	2,356
PAT	288	780	970
EPS (Rs.)	4.4	12.0	14.9

**Analyst: Abhishek Jain**

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

**Associate: Kripashankar Maurya**

Tel: +91 22 40969741

E-mail: kripashankarm@dolatcapital.com

Havells, Haier and other small players. 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).

#### Well poised to ride the PV recovery

Subros is the market leader in the Indian auto air-conditioning market with a 44% market share in the automotive PV AC segment. Subros is catering to close to 75% 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, the shift in demand towards petrol variants is also positive for the company.

#### Exhibit 1: Actual vs estimated performance

(Rs.mn)	Actual	Estimated	% Variance	Comments
Revenue	4,581	5,461	(16)	
EBITDA	535	552	(3)	Weak revenue from CV segment and cost control measures.
EBITDA margin (%)	11.67	10.10	157	
PAT	177	236	(25)	

Source: Company, DART

#### Exhibit 2: Change in Estimates

(Rs Mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	20,637	19,634	5.1	22,878	22,125	3.4
EBITDA	2,064	1,944	6.2	2,356	2,257	4.4
EBITDA Margin (%)	10.00	9.90	10.0	10.30	10.20	10.0
PAT	780	659	18.3	970	859	12.9
EPS (Rs)	12.0	10.1	18.3	14.9	13.2	12.9

Source: Company, DART

#### Exhibit 3: Assumption Sheet

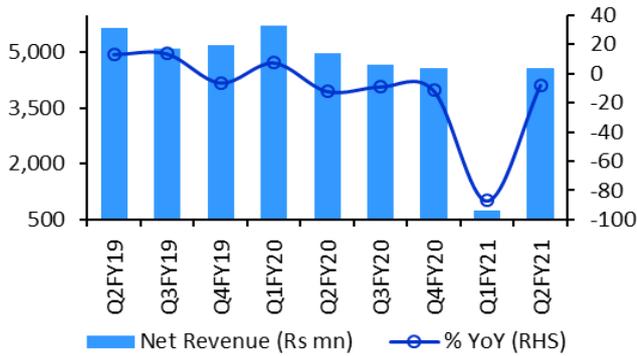
Segment Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from AC Supply in PV	15,949	17,705	15,544	12,712	15,240	16,624
Revenue from other new Verticals	3,130	3,490	4,241	3,833	5,248	6,104
CV & buses	680	1,000	800	400	640	730
Radiator	2,200	2,370	2,391	2,033	2,338	2,525
Home AC	50	40	930	1,200	2,000	2,500
Trans. refrigeration	50	30	100	100	120	150
Railways	150	50	20	100	150	200
Other Operating income	50	50	143	80	150	150
<b>Total</b>	<b>19,129</b>	<b>21,245</b>	<b>19,928</b>	<b>16,624</b>	<b>20,637</b>	<b>22,878</b>

Source: Company, DART

## Conference Call Highlight

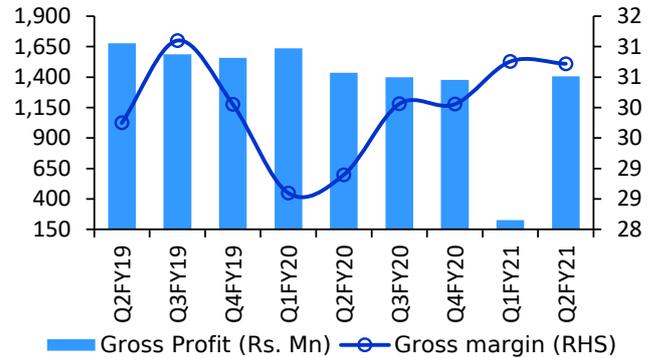
- In Q2 industry witnessed V shape recovery in PV segment. The management is optimistic on recovery in H2FY21 and expect positive growth in Q3 & Q4. However, CV segment still laggard and expect recovery to take 2-3 quarters.
- Subros 2Q Sales was down 8% YoY, led by 1) lower revenue Home AC segment (Rs.50mn vs Rs.300mn), sharp fall in CV and Bus Segment and supply chain issue at Renault Nissan Brazil plant (due to extended lockdown).
- Revenue breakup for Q2FY21 – Radiator Rs. 600mn, PV Rs.3,750 mn and Non PV Rs.250mn. Revenue from MSIL is ~Rs.4bn during the quarter and company is having presence in all the models of MSIL.
- Margin for the quarter has improved due to better gross margin, increase localization, better model mix and cost control measures and management expect to sustain the margin at similar going forward.
- Company expect Home AC segment to see growth of 15-20% in FY21. current capacity for Home AC segment is 250-300k units and peak revenue would be approx. Rs.2-2.5bn, total investment in home AC was Rs.300mn. Current EBIDTA margin is 5-6% which can be improved to 8% going forward.
- Currently company supplying Window, ODO, IDO to its customer in Home AC segment and exploring further opportunity in commercial AC.
- Subros has maintained its market share at 44%, Share of Business from MSIL is ~70%
- Home AC revenue impacted in 2Q due to delay in regulatory approval however it has started the operation in full swing and expect normal revenue from Q3 onwards.
- Railway revenue declined due to delays in tender announcement, opportunity size would be Rs. 200-300mn.
- Gross debt reduced from Rs. 2.4bn in Q1 to Rs 1.44bn in Q2. Company expect to further reduce the debt by Rs. 200-250 mn by year end. Major capex has been completed and the company is likely to incur capex of Rs 500-600mn per annum.
- Total import content is 26-28% of total revenue; import content from China attributes to 5% of total revenue company expect import content to reduce to 8-10% from current 26% with the help of localization.
- Company currently import 15-20% Home AC parts directly or indirectly however there is alternate source available locally

**Exhibit 4: Revenue declined 8% YoY**



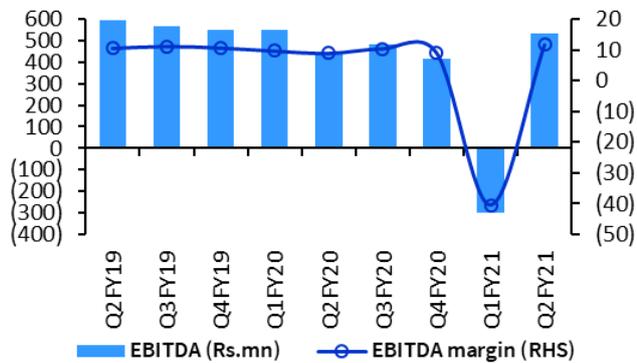
Source: Company, DART

**Exhibit 5: Gross margin improved YoY**



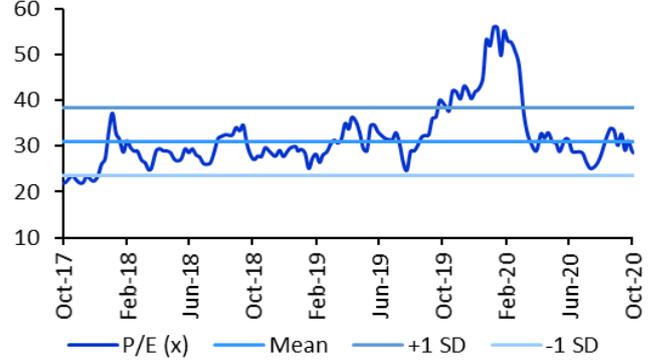
Source: Company, DART

**Exhibit 6: EBITDA margin improved YoY**



Source: Company, DART

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



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>19,928</b>	<b>16,624</b>	<b>20,637</b>	<b>22,878</b>
<b>Total Expense</b>	<b>18,038</b>	<b>15,211</b>	<b>18,574</b>	<b>20,521</b>
COGS	14,088	11,637	14,591	16,129
Employees Cost	2,073	1,912	2,064	2,265
Other expenses	1,877	1,662	1,919	2,128
<b>EBIDTA</b>	<b>1,890</b>	<b>1,413</b>	<b>2,064</b>	<b>2,356</b>
Depreciation	903	912	955	1,017
<b>EBIT</b>	<b>987</b>	<b>501</b>	<b>1,109</b>	<b>1,339</b>
Interest	363	215	165	149
Other Income	200	100	110	120
Exc. / E.O. items	413	0	0	0
<b>EBT</b>	<b>1,237</b>	<b>386</b>	<b>1,054</b>	<b>1,311</b>
Tax	391	98	274	341
RPAT	846	288	780	970
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>557</b>	<b>288</b>	<b>780</b>	<b>970</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	131	131	131	131
Minority Interest	0	0	0	0
Reserves & Surplus	7,392	7,628	8,310	9,117
<b>Net Worth</b>	<b>7,523</b>	<b>7,758</b>	<b>8,440</b>	<b>9,247</b>
Total Debt	1,126	1,426	1,316	1,206
Net Deferred Tax Liability	164	167	170	174
<b>Total Capital Employed</b>	<b>8,813</b>	<b>9,351</b>	<b>9,927</b>	<b>10,627</b>

**Applications of Funds**

Net Block	<b>7,435</b>	<b>7,323</b>	<b>7,068</b>	<b>6,851</b>
CWIP	660	509	809	809
Investments	18	25	25	25
<b>Current Assets, Loans &amp; Advances</b>	<b>5,773</b>	<b>5,702</b>	<b>7,220</b>	<b>8,829</b>
Inventories	2,343	2,004	2,431	2,695
Receivables	1,893	1,640	2,035	2,256
Cash and Bank Balances	909	905	1,514	2,610
Loans and Advances	94	504	504	504
Other Current Assets	535	649	736	763
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,073</b>	<b>4,209</b>	<b>5,196</b>	<b>5,887</b>
Payables	3,852	2,917	3,664	3,992
Other Current Liabilities	1,221	1,291	1,532	1,895
<i>sub total</i>				
Net Current Assets	701	1,494	2,024	2,941
<b>Total Assets</b>	<b>8,813</b>	<b>9,351</b>	<b>9,926</b>	<b>10,627</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	29.3	30.0	29.3	29.5
EBIDTA Margin	9.5	8.5	10.0	10.3
EBIT Margin	5.0	3.0	5.4	5.9
Tax rate	31.6	25.5	26.0	26.0
Net Profit Margin	4.2	1.7	3.8	4.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	70.7	70.0	70.7	70.5
Employee	10.4	11.5	10.0	9.9
Other	9.4	10.0	9.3	9.3
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.2	0.2	0.1
Interest Coverage	2.7	2.3	6.7	9.0
Inventory days	43	44	43	43
Debtors days	35	36	36	36
Average Cost of Debt	24.2	16.9	12.0	11.8
Payable days	71	64	65	64
Working Capital days	13	33	36	47
FA T/O	2.7	2.3	2.9	3.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	8.5	4.4	12.0	14.9
CEPS (Rs)	22.4	18.4	26.6	30.5
DPS (Rs)	0.8	0.8	1.5	2.5
Dividend Payout (%)	9.4	18.1	12.5	16.8
BVPS (Rs)	115.3	118.9	129.4	141.8
RoANW (%)	7.8	3.8	9.6	11.0
RoACE (%)	9.1	5.5	9.8	10.9
RoAIC (%)	12.6	6.1	13.2	16.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	241	241	241	241
P/E	28.2	54.6	20.1	16.2
Mcap (Rs Mn)	15,706	15,706	15,706	15,706
MCap/ Sales	0.8	0.9	0.8	0.7
EV	15,922	16,226	15,508	14,301
EV/Sales	0.8	1.0	0.8	0.6
EV/EBITDA	8.4	11.5	7.5	6.1
P/BV	2.1	2.0	1.9	1.7
Dividend Yield (%)	0.3	0.3	0.6	1.0
<b>(F) Growth Rate (%)</b>				
Revenue	(6.2)	(16.6)	24.1	10.9
EBITDA	(17.1)	(25.3)	46.0	14.2
EBIT	(33.8)	(49.2)	121.2	20.8
PBT	5.4	(68.8)	173.1	24.4
APAT	(26.9)	(48.3)	171.3	24.4
EPS	(26.9)	(48.3)	171.3	24.4
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
CFO	2,388	631	2,003	2,354
CFI	(928)	(657)	(1,000)	(800)
CFF	(1,450)	22	(395)	(457)
FCFF	1,406	(18)	1,003	1,554
Opening Cash	899	909	905	1,514
Closing Cash	909	905	1,514	2,611

E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Aug-20	Accumulate	237	208
Sep-20	Accumulate	237	248

\*Price as on recommendation date

### DART Team

**Purvag Shah**      **Managing Director**      [purvag@dolatcapital.com](mailto:purvag@dolatcapital.com)      **+9122 4096 9747**

**Amit Khurana, CFA**      **Head of Equities**      [amit@dolatcapital.com](mailto:amit@dolatcapital.com)      **+9122 4096 9745**

#### CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	<a href="mailto:dineshb@dolatcapital.com">dineshb@dolatcapital.com</a>	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	<a href="mailto:kapil@dolatcapital.com">kapil@dolatcapital.com</a>	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	<a href="mailto:yomika@dolatcapital.com">yomika@dolatcapital.com</a>	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	<a href="mailto:jubbins@dolatcapital.com">jubbins@dolatcapital.com</a>	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	<a href="mailto:ashwanik@dolatcapital.com">ashwanik@dolatcapital.com</a>	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	<a href="mailto:lekhan@dolatcapital.com">lekhan@dolatcapital.com</a>	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	<a href="mailto:sridhar@dolatcapital.com">sridhar@dolatcapital.com</a>	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	<a href="mailto:chandrakant@dolatcapital.com">chandrakant@dolatcapital.com</a>	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	<a href="mailto:shirisht@dolatcapital.com">shirisht@dolatcapital.com</a>	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	<a href="mailto:kartikm@dolatcapital.com">kartikm@dolatcapital.com</a>	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	<a href="mailto:dinesh.mehta@dolatcapital.com">dinesh.mehta@dolatcapital.com</a>	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	<a href="mailto:bhavinm@dolatcapital.com">bhavinm@dolatcapital.com</a>	+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: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

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

---