

### Growth acceleration

- Driven by strong growth in core PV AC business and recovery in home ACs segment, Subros printed impressive numbers in 3QFY21. Revenue (+30% YoY, Rs. 6bn) and EBITDA (+37% YoY, Rs 663mn) beat expectations.
- Despite a fall in GM (225bps QoQ, 186bps YoY), EBITDA margin expanded to 11% (+62bpsYoY) led by operating leverage and cost control measures. Management expect gross margin to improve from next quarter due to pass on input cost to OEMs.
- We expect volume growth to continue in the PV segment led by traction in personal mobility and low base. MSIL's low network inventory (less than 1 week) and robust order backlog (~200kk vehicle) will aid further volume growth.
- Home AC sales increased to Rs.240mn vs Rs.50mn in Q2FY21 while margin is under pressure due to fluctuation of input cost. We expect the Home AC segment will also show significant growth due to the ban on imports of AC's with refrigerants. Current capacity for Home AC segment is 250-300k units and peak revenue may reach to Rs.2.5-3bn in next two- three years.
- The company is focused on deleveraging its balance sheet, Gross debt has also come down to Rs. 1bn in Q3 vs 1.4bn in Q2.
- Given the strong momentum in PVs volume, recovery in CV segment, incremental revenue from new business verticals (especially from Home AC and railway) and sharp reduction in interest cost, **we estimate Subros to report a PAT CAGR of 58% over FY21-FY23E. We increase our EPS by 17/13% for FY22/23E and upgrade target price to Rs 370 (based on 22x FY23E EPS). Recommend Accumulate.**

### Upbeat outlook for PVs

The current demand environment is strong for PVs led by traction in personal mobility and a strong rural market. MSIL's low network inventory (less than 1 week) and robust order backlog (~200k vehicle) will aid revenue growth ahead. Subros is the market leader (cont.)

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	6,038	4,656	29.7	4,581	31.8
Total Expense	5,376	4,174	28.8	4,046	32.8
EBITDA	663	482	37.4	535	24.0
Depreciation	249	234	6.0	238	4.6
EBIT	415	248	67.1	297	39.5
Other Income	34	23	47.6	38	(8.8)
Interest	33	75	(56.3)	56	(40.9)
EBT	416	196	112.1	279	48.9
Tax	142	61	130.9	102	38.9
RPAT	274	135	103.5	177	54.7
APAT	274	135	103.5	177	54.7
			(bps)		(bps)
Gross Margin (%)	28.2	30.1	(186)	30.7	(252)
EBITDA Margin (%)	11.0	10.4	62	11.7	(69)
NPM (%)	4.5	2.9	165	3.9	67
Tax Rate (%)	34.1	31.3	278	36.5	(246)
EBIT Margin (%)	6.9	5.3	154	6.5	38

CMP	Rs 334
Target / Upside	Rs 370 / 11%
NIFTY	14,281

### Scrip Details

Equity / FV	Rs 131mn / Rs 2
Market Cap	Rs 22bn
	USD 298mn
52-week High/Low	Rs 365/ 118
Avg. Volume (no)	87,961
Bloom Code	SUBR IN
<b>Price Performance</b>	<b>1M 3M 12M</b>
Absolute (%)	(3) 19 33
Rel to NIFTY (%)	(5) (3) 14

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	36.8	36.8	36.8
MF/Banks/FIs	8.3	9.5	10.5
FIIIs	0.6	1.2	1.2
Public / Others	54.4	52.5	51.6

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	47.2	23.8	19.9
EV/EBITDA	14.1	9.2	7.6
ROE (%)	6.0	11.0	11.9
RoACE (%)	6.9	10.9	11.7

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	17,900	21,928	24,395
EBITDA	1,575	2,324	2,610
PAT	461	914	1,093
EPS (Rs.)	7.1	14.0	16.8

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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.

#### 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 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).

#### Exhibit 1: Actual vs estimated performance

(Rs.mn)	Actual	Estimated	% Variance	Comments
Revenue	6,039	5,215	16	Faster recovery in PV volume and incremental revenue from AC segment.
EBITDA	663	558	19	Better operating leverage
EBITDA margin (%)	10.98	10.70	28bps	
PAT	274	197	39	Lower interest cost and higher other income

Source: Company, DART

#### Exhibit 2: Change in Estimates

(Rs Mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	21,928	20,637	6.3	24,395	22,878	6.6
EBITDA	2,324	2,064	12.6	2,610	2,356	10.8
EBITDA Margin (%)	10.60	10.00	60 bps	10.70	10.30	40 bps
PAT	914	780	17.1	1,093	970	12.7
EPS (Rs)	14.0	12.0	17.1	16.8	14.9	12.7

Source: Company, DART

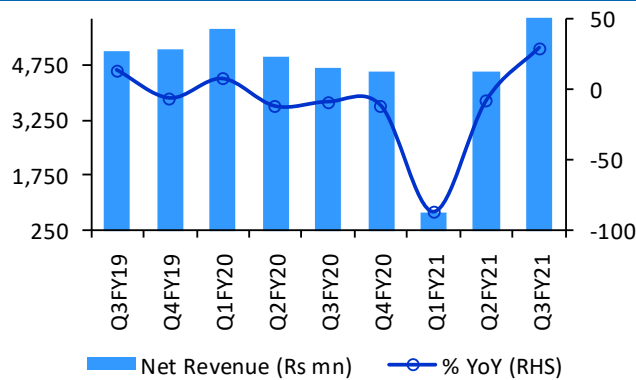
#### Exhibit 3: Assumption Sheet

Segment Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenue from AC Supply in PV	15,949	17,705	15,544	13,867	16,353	17,838
Revenue from other new Verticals	3,130	3,490	4,241	3,952	5,425	6,407
CV & buses	680	1,000	800	400	680	884
Radiator	2,200	2,370	2,391	2,152	2,475	2,673
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>17,900</b>	<b>21,928</b>	<b>24,395</b>

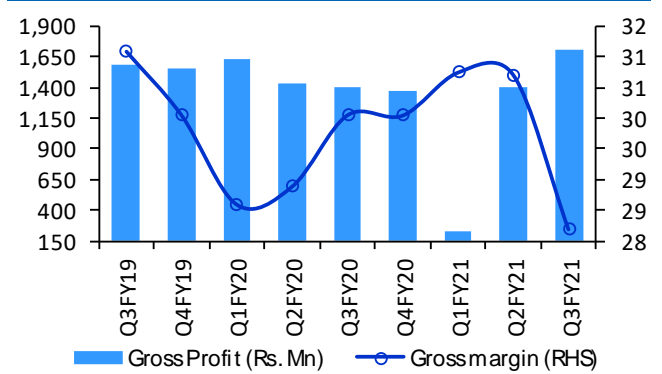
Source: Company, DART

## Conference Call Highlight

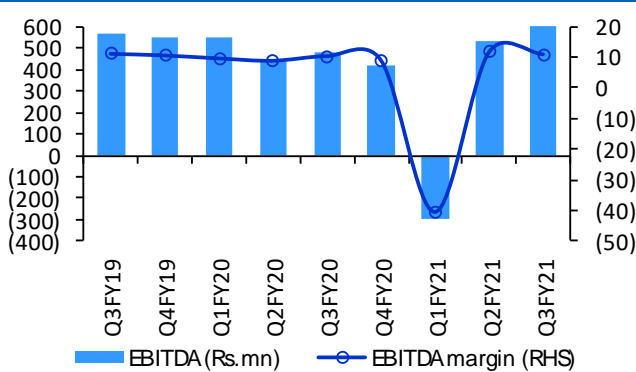
- In Q3 industry witness V shape recovery in PV segment. Demand positivity post festive season is still continuing. Outlook for Q4FY21 is better as compared to Q3FY21.
- Revenue breakup for Q3FY21 – Radiator Rs. 850mn, PV Rs. 4,620mn and Non-car Rs, 570mn (Home AC Rs. 240mn vs Rs. 50mn in Q2FY21).
- Gross margin contracted 186bps YoY due to increase in commodity prices, logistic cost, and product mix. However, margin for the quarter has improved due to cost control. Logistic disruption issue to continue in coming quarter. Management expect margin trajectory to improve to 12-13% in next 3-4 years. Expect ROE to improve to 20% as long-term strategy.
- Utilization in Q3 was 90-95% due to higher demand from OEMs, have headroom to improve it further by 4-5%. Subros revenue growth for MSIL is 28% due to model mix (100% SOB for Gujarat facility) and growth in B & B+ segment.
- During the quarter margin was under pressure due to fluctuation of input cost. Company is in negotiation with OEM for compensation of higher RM prices.
- Reduction in debt and lower working capital requirement led to lower interest cost.
- Expect debt level to come down to Rs. 750 to Rs. 1,000 mn by year-end.
- Expect revenue mix to ~75:25 for Car and Non-car segment over next 3-4 years.
- Imposition of Duty on AC component augur well for local manufacturing.
- In Railway: company expect better revenue visibility from Driver cabin aircon segment as Railway is looking to 100% driver cabin aircon by FY23-24, In coach Aircon expect segment to grow by 20% and additional business from AC contract from railway. Expect segment to achieve revenue of Rs.700 to 1000mn over next 2-3 years.
- Company expect Home AC segment to achieve revenue of Rs.900-1000mn in FY21 and expect 10-15% growth in FY22. In next 2-3 years company expect to do Rs.2-2.5bn of revenue. EBIDTA margin in Home AC segment is 6-7% and expect to improve it further with the help of localization and backward integration. Voltas, Havells, Carrier and Haier's are key clients.
- Company is working with Various OEMs and vaccine manufacturing for providing refrigerated vehicle.
- Expect full year Tax rate in the range of 34-35%. MAT credit utilization is available up to 2025.

**Exhibit 4: Revenue improved 30% YoY**


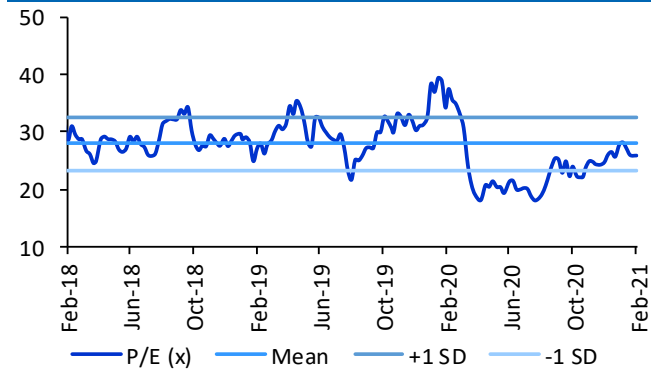
Source: Company, DART

**Exhibit 5: Gross margin contracted YoY/QoQ**


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>17,900</b>	<b>21,928</b>	<b>24,395</b>
<b>Total Expense</b>	<b>18,038</b>	<b>16,324</b>	<b>19,604</b>	<b>21,785</b>
COGS	14,088	12,709	15,437	17,150
Employees Cost	2,073	1,897	2,127	2,366
Other expenses	1,877	1,718	2,039	2,269
<b>EBIDTA</b>	<b>1,890</b>	<b>1,575</b>	<b>2,324</b>	<b>2,610</b>
Depreciation	903	923	979	1,030
<b>EBIT</b>	<b>987</b>	<b>652</b>	<b>1,345</b>	<b>1,580</b>
Interest	363	175	165	149
Other Income	200	115	125	130
Exc. / E.O. items	413	0	0	0
<b>EBT</b>	<b>1,237</b>	<b>592</b>	<b>1,305</b>	<b>1,562</b>
Tax	391	130	392	468
RPAT	846	461	914	1,093
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>461</b>	<b>914</b>	<b>1,093</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	7,802	8,617	9,548
<b>Net Worth</b>	<b>7,523</b>	<b>7,932</b>	<b>8,748</b>	<b>9,678</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>9,525</b>	<b>10,234</b>	<b>11,058</b>

### Applications of Funds

Net Block	7,435	7,312	7,032	6,802
CWIP	660	509	809	809
Investments	18	25	25	25
<b>Current Assets, Loans &amp; Advances</b>	<b>5,773</b>	<b>6,178</b>	<b>7,844</b>	<b>9,660</b>
Inventories	2,343	2,158	2,583	2,874
Receivables	1,893	1,765	2,163	2,406
Cash and Bank Balances	909	1,081	1,836	3,088
Loans and Advances	94	504	504	504
Other Current Assets	535	670	758	788
<b>Less: Current Liabilities &amp; Provisions</b>	<b>5,073</b>	<b>4,499</b>	<b>5,477</b>	<b>6,239</b>
Payables	3,852	3,131	3,867	4,238
Other Current Liabilities	1,221	1,368	1,610	2,002
<i>sub total</i>				
Net Current Assets	701	1,679	2,367	3,421
<b>Total Assets</b>	<b>8,813</b>	<b>9,525</b>	<b>10,234</b>	<b>11,058</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	29.3	29.0	29.6	29.7
EBIDTA Margin	9.5	8.8	10.6	10.7
EBIT Margin	5.0	3.6	6.1	6.5
Tax rate	31.6	22.0	30.0	30.0
Net Profit Margin	4.2	2.6	4.2	4.5
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	70.7	71.0	70.4	70.3
Employee	10.4	10.6	9.7	9.7
Other	9.4	9.6	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	3.7	8.2	10.6
Inventory days	43	44	43	43
Debtors days	35	36	36	36
Average Cost of Debt	24.2	13.8	12.0	11.8
Payable days	71	64	64	63
Working Capital days	13	34	39	51
FA T/O	2.7	2.4	3.1	3.6
<b>(D) Measures of Investment</b>				
AEPS (Rs)	8.5	7.1	14.0	16.8
CEPS (Rs)	22.4	21.2	29.0	32.5
DPS (Rs)	0.8	0.8	1.5	2.5
Dividend Payout (%)	9.4	11.3	10.7	14.9
BVPS (Rs)	115.3	121.6	134.1	148.4
RoANW (%)	7.8	6.0	11.0	11.9
RoACE (%)	9.1	6.9	10.9	11.7
RoAIC (%)	12.6	8.0	16.0	19.3
<b>(E) Valuation Ratios</b>				
CMP (Rs)	334	334	334	334
P/E	39.1	47.2	23.8	19.9
Mcap (Rs Mn)	21,789	21,789	21,789	21,789
MCap/ Sales	1.1	1.2	1.0	0.9
EV	22,005	22,134	21,268	19,907
EV/Sales	1.1	1.2	1.0	0.8
EV/EBITDA	11.6	14.1	9.2	7.6
P/BV	2.9	2.7	2.5	2.3
Dividend Yield (%)	0.2	0.2	0.4	0.7
<b>(F) Growth Rate (%)</b>				
Revenue	(6.2)	(10.2)	22.5	11.2
EBITDA	(17.1)	(16.7)	47.6	12.3
EBIT	(33.8)	(34.0)	106.3	17.5
PBT	5.4	(52.2)	120.6	19.6
APAT	(26.9)	(17.1)	98.0	19.6
EPS	(26.9)	(17.1)	98.0	19.6

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,388	766	2,150	2,509
CFI	(928)	(657)	(1,000)	(800)
CFE	(1,450)	62	(395)	(457)
FCFF	1,406	117	1,150	1,709
Opening Cash	899	909	1,081	1,836
Closing Cash	909	1,081	1,836	3,088

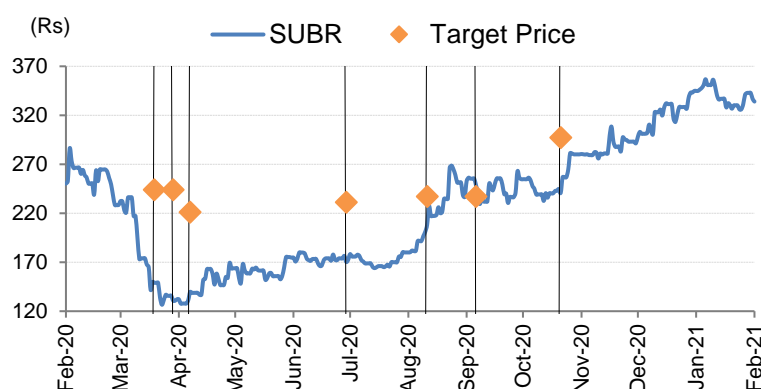
E – Estimates

### 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.)
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
Oct-20	Buy	297	241

\*Price as on recommendation date

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

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