

Subros

On a firm recovery path

Subros reported a strong 3QFY21 with profit rising 55% QoQ to Rs 274mn. Revenue growth surprised at Rs 6bn (+30/32% YoY/QoQ). The company has gained market share with its key customer Maruti – where Subros has reported 28% sales growth (vs. 23% at Maruti) due to improved model mix (higher share of gasoline models). Reiterate BUY, as the company will benefit from its dominant position in car ACs as well as expanding presence in the Home AC segment. The company is localising more components in this segment, including the ODU and IDU units. We raise our estimates by 3/2% for FY22/23E and set a revised target price of Rs 410 at 22x FY23E.

- **3QFY21 financials:** Revenue grew 30% YoY to Rs 6bn, above our expectations (contribution from car AC segment was 77%, 14% from ECM, 4% from Home AC and 5% from other segments). However, EBITDA margin at 11.0% (+60bps/-70bps YoY/QoQ) marginally missed our estimates (11.5%) due to higher commodity costs (~72% of sales, +185/250bps). Reported PAT at Rs 274mn grew 2x YoY, driven by lower interest costs (-56% YoY).
- **Key takeaways:** (1) **Margins to sustain in double digits:** GM declined 185bps in 3QFY21 due to commodity cost fluctuations. However, Subros' has a pass-through clause with customers with a one-quarter lag. Margins are expected to sustain at current levels, given Subros' efforts towards localisation and backward integration. (2) **Home AC segment:** The segment has again started to contribute to the revenue (in 3QFY21 - Rs 240mn, 4% of sales) after a year of weak sales. The margins will gradually improve as localisation levels improve. (3) **Subros to benefit from Maruti-Toyota partnership:** Subros is bidding for new platforms/models under the Maruti-Toyota venture and is hopeful of winning their orders. (4) **New products:** Subros' will be launching its upgraded technology of Vane Rotary compressors in the New Baleno in Nov-21. The size of the opportunity is Rs 800-1,000mn p.a. (5) **Higher tax rates:** Tax rates will be higher (+30% p.a.) until FY25, as the company will avail MAT credit. Post FY25, the tax rate would normalise to ~25%.

Financial Summary

| YE March (Rs mn) | 3Q FY21 | 3Q FY20 | YoY (%) | 2Q FY21 | QoQ (%) | FY19 | FY20 | FY21E | FY22E | FY23E |
|---------------------|------------|------------|------------|------------|------------|--------|--------|--------|--------|--------|
| Net Sales | 6,039 | 4,656 | 30 | 4,581 | 32 | 21,245 | 19,928 | 16,384 | 19,104 | 22,642 |
| EBITDA | 663 | 482 | 37 | 535 | 24 | 2,282 | 1,890 | 1,425 | 2,101 | 2,581 |
| APAT | 274 | 135 | 103 | 177 | 55 | 785 | 563 | 353 | 862 | 1,212 |
| Adj. EPS (Rs) | 4.2 | 2.1 | 103 | 2.7 | 55 | 12.0 | 8.6 | 5.4 | 13.2 | 18.6 |
| APAT Gr (%) | | | | | | 27.0 | (28.2) | (37.3) | 144.0 | 40.6 |
| P/E (x) | | | | | | 27.9 | 38.9 | 62.0 | 25.4 | 18.1 |
| RoE (%) | | | | | | 14.5 | 7.9 | 4.6 | 10.6 | 13.4 |

Source: Company, HSIE Research

Change in Estimates

| Rs mn | New | | | Old | | | Change (%) | | |
|-------------------|--------|--------|--------|--------|--------|--------|------------|-------|-------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 16,384 | 19,104 | 22,642 | 16,198 | 18,844 | 22,303 | 1 | 1 | 2 |
| EBITDA | 1,425 | 2,101 | 2,581 | 1,505 | 2,073 | 2,543 | (5) | 1 | 2 |
| EBITDA margin (%) | 8.7 | 11.0 | 11.4 | 9.3 | 11.0 | 11.4 | -59 bps | 0 bps | 0 bps |
| PAT | 353 | 862 | 1,212 | 380 | 840 | 1,183 | (7) | 3 | 2 |
| EPS | 5.4 | 13.2 | 18.6 | 5.8 | 12.9 | 18.1 | (7) | 3 | 2 |

Source: Company, HSIE Research

BUY

| | |
|-------------------------|--------|
| CMP (as on 02 Feb 2021) | Rs 333 |
| Target Price | Rs 410 |
| NIFTY | 14,648 |

| KEY CHANGES | OLD | NEW |
|--------------|--------|--------|
| Rating | BUY | BUY |
| Price Target | Rs 400 | Rs 410 |
| EPS % | FY21E | FY22E |
| | -7% | 3% |

KEY STOCK DATA

| | |
|-----------------------------|------------|
| Bloomberg code | SUBR IN |
| No. of Shares (mn) | 65 |
| MCap (Rs bn) / (\$ mn) | 22/298 |
| 6m avg traded value (Rs mn) | 30 |
| 52 Week high / low | Rs 365/117 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-------|------|------|
| Absolute (%) | 18.8 | 85.1 | 33.1 |
| Relative (%) | (6.5) | 52.6 | 7.8 |

SHAREHOLDING PATTERN (%)

| | Sep-20 | Dec-20 |
|-----------------|--------|--------|
| Promoters | 36.8 | 36.8 |
| FIs & Local MFs | 9.5 | 10.5 |
| FPIs | 1.2 | 1.2 |
| Public & Others | 52.5 | 51.6 |

Pledged Shares

Source : BSE

Aditya Makharia

aditya.makharia@hdfcsec.com
+91-22-6171-7316

Mansi Lall

mansi.lall@hdfcsec.com
+91-22-6171-7357

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066 Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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Unit No. 1602, 16th Floor, Tower A, Peninsula Business Park,
Senapati Bapat Marg, Lower Parel, Mumbai - 400 013
Board: +91-22-6171-7330 www.hdfcsec.com