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Subros Limited

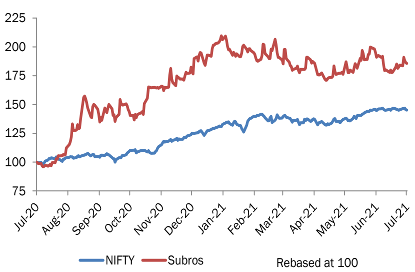
12 July 2021

Robust outlook driven by buoyant end-market demand

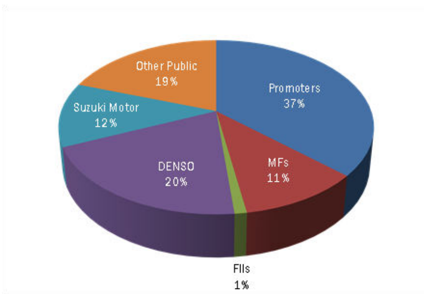
BUY

Sector	: Auto Ancillaries
Target Price	: Rs 385
Current Market Price	: Rs 326
Market Cap	: Rs 2,123 crore
52-week High/Low	: Rs 365/161
Daily Avg Vol (12M)	: 94,192
Face Value	: Rs 2
Beta	: 1.04
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 517168
NSE Scrip Code	: SUBROS
Bloomberg Code	: SUBR IN
Reuters Code	: SUBR.NS
NIFTY	: 15,693
BSE SENSEX	: 52,373
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



4Q FY21 Update

Outlook & Valuation

With 65% of FY21 revenues coming from the Suzuki group (Maruti Suzuki and Suzuki Motor Gujarat combined), management expects the Suzuki group's contribution to be 65% to 70% in the next 3 years. Tata Motors and Mahindra & Mahindra are amongst other major customers of Subros with the company commanding shares of ~20% and ~30% of the thermal products' business generated from the OEMs. Management has a revenue target of Rs 100 crore from Home AC in FY22 (Rs 88 crore or 5% revenue contribution in FY21). With capacity utilisation of 50% to 55% in 4Q FY21, the Home AC unit has an annual production capacity of 2.5 lakh units with the potential to generate peak revenues of ~Rs 200 crore. Capex plans include Rs 110-110 crore / Rs 70 crore / Rs 65 crore in FY22/FY23/FY24 in brownfield expansion, leading to the expasnion of HVAC/compressor capacities from 20 lakh / 15 lakh units to 25-27.5 lakh / 20 lakh units. The company's products except compressors are platform-agnostic and consequently its existing HVAC technology can be readily used in EV platforms. Going forward, management sees growth to be in line with the Indian auto industry while expecting the bus, railways, truck AC and refrigerated truck businesses to expand. The company seeks to manage raw material cost through value analysis / value engineering and alternate sourcing with a focus on localisation to mitigate FX fluctuations. Cost optimisation through consolidation of plants and optimisation of shifts/working days will benefit operating profitability while capex controls will positively impact cash flows. The Subros stock has appreciated 34% since we initiated coverage with a BUY rating on 17 September 2020. Basis expectations of robust sales growth, driven by buoyant end-market demand, and improvement in profitability, we reiterate a BUY rating with a price target of Rs 385 (at 22.0x FY23E EPS) and an upside of 18% from current levels.

Key Financial Metrics (Consolidated)

Rs crore	FY19A	FY20A	FY21A	FY22E	FY23E
Operating revenue	2,124.5	1,992.8	1,795.7	2,142.2	2,523.5
Growth		*-6.2%*	*-9.9%*	*19.3%*	*17.8%*
EBITDA	228.2	189.0	153.8	207.8	254.9
EBITDA margin	*10.7%*	*9.5%*	*8.6%*	*9.7%*	*10.1%*
PAT	76.3	84.9	47.4	81.7	114.1
PAT margin	*3.6%*	*4.3%*	*2.6%*	*3.8%*	*4.5%*
Diluted EPS (Rs)	12.37	13.00	7.26	12.52	17.49

Source: Company data; Khambatta Research

Result Analysis

Subros reported numbers in line with / marginally higher than our expectations as business rebounded sharply during 2H FY21, especially in 4Q FY21. This was in contrast to the degrowth in 1H FY21 as operations remained suspended during a major part of 1Q FY21 owing to the covid outbreak and ensuing lockdown. Robust 4Q FY21 growth was driven by the PV and Home AC verticals, resulting in operating leverage. For the full year, CoGS percentage was higher due to a rise in commodity prices, escalation in import logistic cost and changes in product mix. FY21 employee benefit expenses were lower in absolute terms due to the closure in 1Q FY21 while both CoGS and depreciation were higher in percentage terms due to lower sales. While lower debt levels and declining interest rates led to a fall in finance cost during 4Q FY21 and FY21, full-year margins were negatively affected due to a lower revenue base.

Financial Performance (Consolidated)

Rs crore	4Q FY20	4Q FY21	Y-o-y	FY20	FY21	Y-o-y
Operating revenue	458.5	659.9	43.9%	1,992.8	1,795.7	-9.9%
EBITDA	41.6	63.9	53.4%	189.0	153.8	-18.7%
EBITDA margin	*9.1%*	*9.7%*	*60 bps*	*9.5%*	*8.6%*	*-92 bps*
PAT	16.7	26.2	57.6%	84.9	47.4	-44.2%
PAT margin	*3.6%*	*4.0%*	*34 bps*	*4.3%*	*2.6%*	*-162 bps*
EPS (Rs)	2.55	4.02	57.7%	13.00	7.26	-44.1%

Source: Company data; Khambatta Research

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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