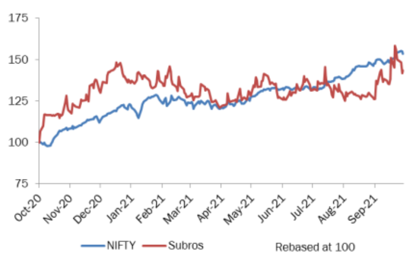
Subros Limited

26 October 2021

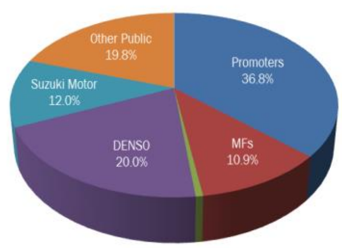
Long term prospects remain intact, withstanding the margin pressure — BUY

Sector	: Auto Ancillary
Target Price	: ₹ 415
Current Market Price	: ₹ 355
Market Cap	: ₹ 2313 crores
52-week High/Low	: ₹ 418/256.9
Daily Avg Vol (12M)	: 84,950
Face Value	: ₹2
Beta	: 0.94
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 517168
NSE Scrip Code	: SUBROS
Bloomberg Code	: SUBR IN
Reuters Code	: SUBR.NS
Nifty	: 18125.4
BSE Sensex	: 60967
Analyst	: Research Team

Price Performance



Shareholding Pattern



Q2FY22 – Result Update

Result Analysis

The Operating Revenue of Subros Ltd stood at ₹ 529.5 crores for the 2Q FY22 as compared to ₹458.1 crores in the same quarter last year. On a sequential basis, the Revenue has seen a growth of 10.2%. There has been a significant drop in the EBITDA (35% y-o-y decline) to ₹ 34.7 crores from the ₹ 53.5 crores reported in 2QFY21. The increase in commodity prices, container cost, Packing and Freight cost, Diesel cost and the product mix has led to a ~512 bps y-o-y decline in the EBITDA margin. There has been a marginal improvement of ~98 bps in 2QFY22 over 1QFY22. The Other income has seen a dip due to settlement of Foreign liabilities and an annual increment given to employees in April 2021 has led to the rise in employee cost during the quarter. The company has reported Net Profit de-growth of 72.1% y-o-y from ₹ 17.73 crores in 2QFY21 to ₹ 4.95 crores in 2QFY22. The Net Profit margins fell ~300 bps to 0.9% (3.9% in 2QFY21) during the 3 months ended September 21.

Outlook & Valuation

The management expects a double digit top-line growth for FY22, however, the margins pressure might continue due to elevated commodity prices and rising logistics costs and packing cost. The shortage of semiconductor, availability of Power supply in India and other supply chain related issues continue to pose a challenge going ahead. Subros's growth is expected to be in line with the growth of Indian Automobile Industry. The company's business expansion in Bus, Railways, Truck AC and Refrigeration trucks looks promising. Home AC segment accounts for ~₹ 41 crores of revenue in 1HFY22 and is expected to contribute ~130 crores for FY22. Maruti and Suzuki together accounted for ~81% of the total revenues in 2QFY22 as compared to ~89% in 2QFY21. The Maruti–Toyota partnership is expected to add significantly to the topline of Subros Ltd by the mid of FY23.The current capacity utilization stands around 45-50% as against the peak utilization levels of 80-90%. The management has guided capex of ₹ 80-90 crores for FY22.

The stock currently trades at an attractive forward P/E level of 23x FY24E EPS. Assigning a target multiple of 27x FY24E EPS, our valuation generates a price target of ₹ 415, informing a BUY rating with an upside potential of 17% from the current levels.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	2,124.5	1,992.8	1,795.7	2,156.7	2,523.4	2,952.3
Growth		*-6.2%*	*-9.9%*	*20.1%*	*17.0%*	*17.0%*
EBITDA	228.2	189.0	153.8	160.9	189.3	250.9
EBITDA margin	*10.7%*	*9.5%*	*8.6%*	*7.5%*	*7.5%*	*8.5%*
PAT	76.3	84.8	47.4	47.8	62.8	100.2
PAT margin	*3.6%*	*4.3%*	*2.6%*	*2.2%*	*2.5%*	*3.4%*
Diluted EPS (₹)	12.37	13.00	7.26	7.32	9.63	15.35

Source: Company data; Khambatta Research

Financial Performance (Consolidated)

₹ crore	2Q FY21	1Q FY22	2Q FY22	Y-o-Y	Q-o-Q
Operating Revenue	458.1	480.5	529.5	15.6%	10.2%
EBITDA	53.5	26.8	34.7	-35.1%	29.5%
EBITDA margin	*11.7%*	*5.6%*	*6.6%*	*-512 bps*	*98 bps*
PAT	17.73	3.35	4.95	-72.1%	47.8%
PAT margin	*3.9%*	*0.7%*	*0.9%*	*-294 bps*	*24 bps*
EPS (₹)	2.72	0.51	0.76	-72.1%	47.8%

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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