

Subros Limited

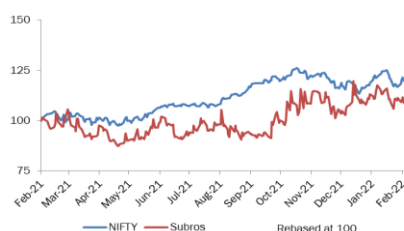
04 February 2022

Growth at auto OEMs, led by Maruti, is the key value driver for Subros

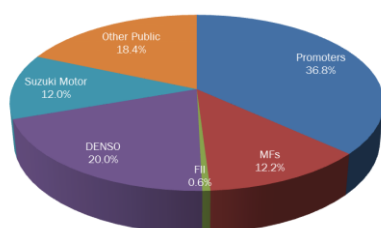
BUY

Sector	: Auto Ancillaries
Target Price	: Rs 416
Current Market Price	: Rs 361
Market Cap	: Rs 2,355 crore
52-week High/Low	: Rs 418/283
Daily Avg Vol (12M)	: 83,623
Face Value	: Rs 2
Beta	: 0.9
Pledged Shares	: 0%
Year End	: March
BSE Scrip Code	: 517168
NSE Scrip Code	: SUBROS
Bloomberg Code	: SUBR IN
Reuters Code	: SUBR.NS
NIFTY	: 17,516
BSE SENSEX	: 58,645
Analyst	: Ritwik Bhattacharjee

Price Performance



Shareholding Pattern



3Q FY22 Update

Result Analysis

- Subros reported lower revenues in 3Q FY22 on a y-o-y basis (-9.3%) while 9M FY22 sales grew by a healthy 37%.
- 3Q FY22 EBITDA declined by 40% y-o-y owing to the sales de-growth as well as margin compression (-372 bps y-o-y) resulting from higher shipping, commodity, packaging and diesel costs, increased overheads, and changes in product mix. Employee costs have gone up on a y-o-y basis due to salary uplifts implemented in April 2021.
- PAT declined during the quarter, both in absolute and margin terms due to the decline at the EBITDA level.

Outlook & Valuation

Semiconductor shortages continued to impact production of vehicles including at Subros's main customer Maruti. While it is expected to take a few more quarters for chip supplies to normalise as global foundries invest to expand capacity, the situation is expected to progressively improve from hereon. On the demand side, there is improved traction with auto OEMs/dealers witnessing buoyancy in both bookings and inquiries. Being the market leader and enabled by a slew of launches over the next couple of years, Maruti is most favourably placed to gain from the strong recovery in the PV market, as Subros is set to benefit from the anticipated volume growth at Maruti and its other automotive OEM clients. Further, Subros continues to register robust growth in non-PV verticals with the Home AC business expanding by 120% in 9M FY22. During 3Q FY22, Subros won its first railway coach AC contract. The Subros stock has appreciated 48% since we initiated coverage with a BUY rating on 17 September 2020. Basis a strong launch pipeline and expectations of healthy growth at auto OEMs, led by Maruti, we reiterate a BUY rating with a price target of Rs 416 (at 27.0x FY24E EPS) and an upside of 15% from current levels.

Key Financial Metrics (Consolidated)

₹ crore	FY19A	FY20A	FY21A	FY22E	FY23E	FY24E
Operating revenue	2,124.5	1,992.8	1,795.7	2,165.6	2,518.5	2,873.7
Growth		-6.2%	-9.9%	20.6%	16.3%	14.1%
EBITDA	228.2	189.0	153.8	147.3	201.5	273.0
EBITDA margin	10.7%	9.5%	8.6%	6.8%	8.0%	9.5%
PAT	76.3	84.8	47.4	29.7	60.7	100.5
PAT margin	3.6%	4.3%	2.6%	1.4%	2.4%	3.5%
Diluted EPS (₹)	12.37	13.00	7.26	4.55	9.30	15.41

Source: Company data; Khambatta Research

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Financial Performance (Consolidated)

₹ crore	3Q FY21	2Q FY22	3Q FY22	Y-o-Y	Q-o-Q	9M FY21	9M FY22	Y-o-Y
Operating Revenue	603.9	529.5	547.6	-9.3%	3.4%	1,135.7	1,557.6	37.1%
EBITDA	66.3	34.7	39.8	-40.0%	14.6%	89.9	101.3	12.6%
EBITDA margin	11.0%	6.6%	7.3%	-372 bps	71 bps	7.9%	6.5%	-142 bps
PAT	27.43	4.95	7.55	-72.5%	52.5%	21.1	15.9	-25.0%
PAT margin	4.5%	0.9%	1.4%	-316 bps	44 bps	1.9%	1.0%	-84 bps
EPS (₹)	4.20	0.76	1.16	-72.4%	52.5%	3.2	2.4	-25.0%

Source: Company data; Khambatta Research

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Subros Limited**04 February 2022****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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