

Diversifying the revenue mix

In a sluggish market environment, Subros delivered ~8% YoY revenue growth driven by the ramp up in the home AC segment (post acquisition of Zamil in 4QFY19). Reiterate BUY with a revised TP of Rs 230 (at 15x FY21 EPS, 17x earlier). We are lowering earnings by 11% / 7% over FY20/21E to factor in lower margins. We reduce our multiple due to the slowdown in the pass car industry, which accounts for over 80% of its revenues.

HIGHLIGHTS OF THE QUARTER

- Financials:** Revenue at Rs 5.7bn grew 8% YoY (73%- Car AC, 11%- ECM, 11%- Home AC, 5%- CV & others). EBITDA margin contracted 110/100bps YoY/QoQ to 9.6% due to higher contribution from the low margin home AC segment. Interest cost included a charge of Rs 71mn towards enhanced compensation for Manesar land. APAT came in at Rs 143mn (-34/-12% YoY/QoQ).
- Subros gained market share in the PV-AC segment to 45% (vs 42% in FY19) as it won orders for the refreshed WagonR & Ertiga platforms and for Renault Nissan's exports. Contribution of PV-AC to revenues declined to 73% (vs 79% in FY19).

Financial Summary: Standalone

YE March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	5,722	5,317	7.6	5,181	10.5	15,349	19,129	21,245	22,162	24,066
EBITDA	551	570	(3.3)	550	0.3	1,678	2,099	2,282	2,260	2,479
APAT	143	215	(33.6)	162	(12.0)	351	618	785	795	985
Diluted EPS (Rs)	2.2	3.3	(33.6)	2.5	(12.0)	5.8	10.3	12.0	12.2	15.1
APAT Growth (%)						46.1	76.2	27.0	1.2	24.0
P/E (x)						32.8	18.6	15.9	15.7	12.7
RoE (%)						10.5	16.4	14.5	10.9	12.0

Source: Company, HDFC sec Inst Research

- Home AC segment ramps up:** This segment accounted for Rs 620mn (11% of revenues). The management expects this business to contribute ~Rs 1,250mn in FY20. However, EBITDA margins at 4-6% are expected to improve once the utilization levels rise (currently at 60%). The strategy to broad base the revenue mix is enabling Subros counter the slowdown in the auto segment.
- Electric vehicles:** Subros is investing in R&D for AC products in electric cars/buses. Content per vehicle will increase as EVs would require higher powered battery cooling module. We believe Subros is well prepared for future technologies due to its collaboration with Denso.

STANCE

Maintain BUY as (1) Subros has gained market share in the PV segment in a slowing market (up by 3%) (2) The co is diversifying into newer segments including home AC component supplies and expects the share of other segments to double to 40% in the medium term. (3) With Denso as its strategic partner, the co has relevant technology for next generation products

INDUSTRY	AUTOS
CMP (as on 13 Aug 2019)	Rs 192
Target Price	Rs 230
Nifty	10,926
Sensex	36,958

KEY STOCK DATA

Bloomberg	SUBR IN
No. of Shares (mn)	65
MCap (Rsbn) / (\$ mn)	12/175
6m avg traded value (Rsmn)	9

STOCK PERFORMANCE (%)

52 Week high / low	Rs 379/163		
	3M	6M	12M
Absolute (%)	(17.2)	(21.0)	(42.2)
Relative (%)	(15.8)	(23.3)	(39.8)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	36.8	36.8
FIs & Local MFs	6.6	7.6
FPIs	0.6	0.6
Public & Others	56.1	55.0
Pledged Shares	0.0	0.0

Source : BSE

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In 1QFY20, the home AC segment contributed 11% to the revenues (Rs 620mn)

EBITDA margin has declined due to the change in product mix

The co reported an exceptional income of Rs 413mn which is a settlement of the Manesar plant fire claim.

Interest costs included ~Rs 71mn paid for enhanced compensation from HSIIDC for the Manesar land

Quarterly Financials Snapshot: Standalone

(Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)
Net sales (incl OOI)	5,722	5,317	7.6	5,181	10.5
Material Expenses	4,086	3,736	9.4	3,624	12.8
Employee Expenses	555	526	5.6	489	13.6
Other Operating Expenses	530	485	9.3	518	2.2
Total Expenditure	5,171	4,747	8.9	4,631	11.7
EBITDA	551	570	(3.3)	550	0.3
Depreciation	215	188	14.8	206	4.3
EBIT	336	382	(12.1)	343	(2.1)
Other Income (Including EO Items)	436	8	5,562.3	19	2,159.1
Interest Cost	145	140	3.4	68	112.6
PBT	627	250	151.0	294	113.0
Tax	209	61	246.1	132	58.2
RPAT	418	189	120.6	162	157.8
EO (Loss) / Profit (Net Of Tax)	275	(25)	(1,186.5)	-	-
APAT	143	215	(33.6)	162	(12.0)
Adj EPS	2.2	3.3	(33.6)	2.5	(12.0)

Source: Company, HDFC sec Inst Research

Margin Analysis: Standalone

As % of sales	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)
Material Expenses	71.4	70.3	113	69.9	146
Employee Expenses	9.7	9.9	(19)	9.4	26
Other Operating Expenses	9.3	9.1	14	10.0	(74)
Total Expenditure	90.4	89.3	108	89.4	98
EBITDA	9.6	10.7	(108)	10.6	(98)
APAT	2.5	4.0	(154)	3.1	(64)
Tax as % of PBT	33.4	24.2	918	45.0	(1,158)

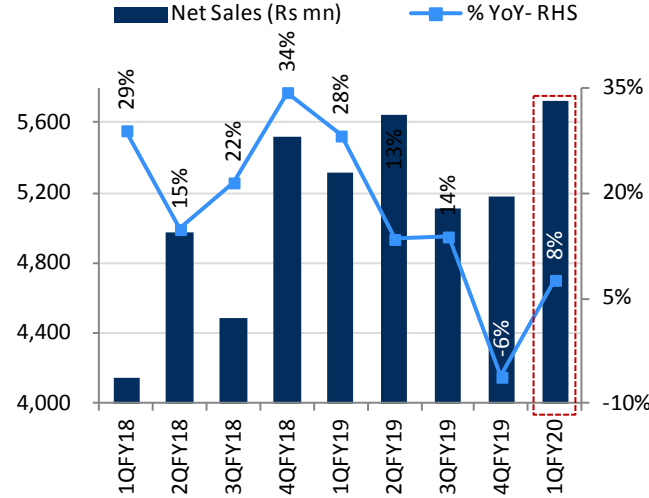
Source: Company, HDFC sec Inst Research

1QFY20, non passenger AC segment contributed to 27% of revenues, led by the home AC category

Subros is supplying home AC components to Voltas and Havells

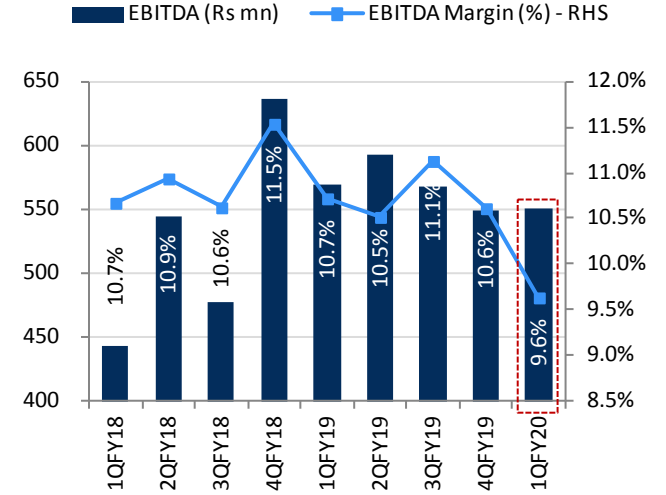
Maruti contributed 72% of the company's turnover. The co has reduced capex guidance to Rs 500mn in FY20 due to the downturn in the pass car industry

Net sales: Growth driven by non-auto segments



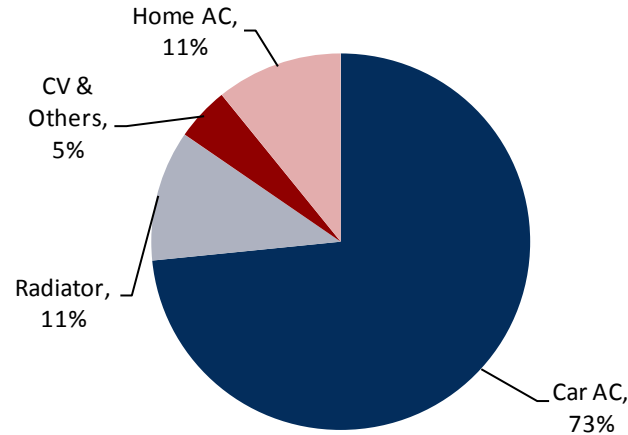
Source: Company, HDFC sec Inst Research

EBITDA margin impacted by change in product mix



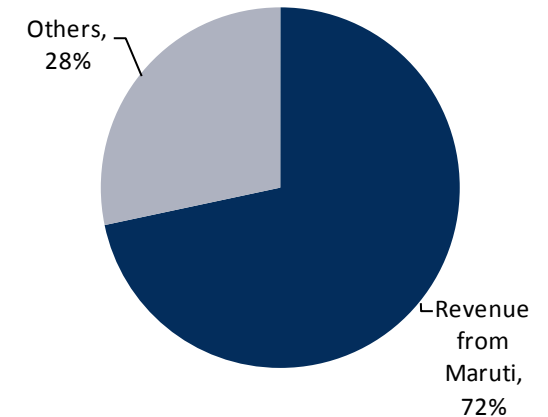
Source: Company, HDFC sec Inst Research

Revenue mix for 1QFY20 (%): Category-wise



Source: Company, HDFC sec Inst Research

Revenue mix for 1QFY20 (%): Customer-wise



Source: Company, HDFC sec Inst Research

Subros is expected to benefit from its diversification initiatives (in CV's and AC part supplies for the home segment)

Key Assumptions

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue from AC Supply in PV	14,465	15,949	16,700	17,020	18,310
% YoY	12.1	10.3	4.7	1.9	7.6
Revenue from Other Verticals	885	3,180	4,545	5,142	5,755
% YoY	421.1	259.5	42.9	13.1	11.9
Total Revenue	15,349	19,129	21,245	22,162	24,066
% YoY	17.4	24.6	11.1	4.3	8.6

Source: Company, HDFC sec Inst Research

Peer set comparison

Company	MCap (Rs bn)	CMP	Rating	TP	Adj EPS (Rs/sh)		P/E (x)		EV/EBITDA (x)		ROE (%)	
					FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Ramkrishna Forgings	14.5	443	SELL	380	25.8	31.4	17.2	14.1	6.3	5.4	9.2	10.3
Subros	12.5	192	BUY	230	12.2	15.1	15.7	12.7	5.5	4.5	10.9	12.0

Source: HDFC sec Inst Research

Change in estimates

	NEW		OLD		% chng	
	FY20	FY21	FY20	FY21	FY20	FY21
Net Revenue	22,162	24,066	22,255	24,432	(0.4)	(1.5)
EBITDA	2,260	2,479	2,337	2,590	(3.3)	(4.3)
EBITDA margin (%)	10.2	10.3	10.5	10.6	-30 bps	-30 bps
PAT	800	991	903	1,063	(11.4)	(6.8)
EPS	12.3	15.2	13.8	16.3	(11.1)	(6.8)

Source: HDFC sec Inst Research

Income Statement (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	15,349	19,129	21,245	22,162	24,066
Growth (%)	17.4	24.6	11.1	4.3	8.6
Material Expenses	10,670	13,349	14,841	15,668	16,966
Employee Expenses	1,537	1,882	2,066	2,128	2,286
Other Operating Expenses	1,465	1,799	2,057	2,105	2,334
Total Expenses	13,672	17,030	18,963	19,901	21,587
EBITDA	1,678	2,099	2,282	2,260	2,479
EBITDA Margin (%)	10.9	11.0	10.7	10.2	10.3
EBITDA Growth (%)	10.3	25.1	8.7	(0.9)	9.7
Depreciation	879	920	788	815	877
EBIT	799	1,179	1,493	1,445	1,602
Other Income (Including EO Items)	(238)	56	70	525	131
Interest	479	412	422	364	251
PBT	82	822	1,141	1,606	1,482
Tax (Incl Deferred)	(52)	218	378	536	496
Minority Interest	-	-	-	-	-
RPAT	133	605	762	1,070	985
EO (Loss) / Profit (Net Of Tax)	(310)	(18)	(33)	413	-
APAT	351	618	785	795	985
APAT Growth (%)	46.1	76.2	27.0	1.2	24.0
Adjusted EPS (Rs)	5.8	10.3	12.0	12.2	15.1
EPS Growth (%)	46.1	76.2	16.8	1.2	24.0

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital - Equity	120	120	130	130	130
Reserves	3,374	3,924	6,669	7,637	8,505
Total Shareholders Funds	3,494	4,044	6,799	7,767	8,635
Long Term Debt	1,584	1,526	574	580	580
Short Term Debt	1,707	1,628	1,303	1,564	1,532
Total Debt	3,291	3,154	1,878	2,144	2,113
Net Deferred Taxes	246	-	12	-	-
Other Non-current Liabilities	44	24	64	64	64
TOTAL SOURCES OF FUNDS	7,075	7,223	8,753	9,975	10,811
APPLICATION OF FUNDS					
Net Block	5,222	7,127	7,128	6,794	6,668
CWIP	1,241	469	633	598	535
Investments	25	16	16	16	16
Other Non-current Assets	587	508	454	499	549
Total Non-current Assets	7,075	8,119	8,230	7,907	7,768
Cash & Equivalents	83	200	904	2,303	3,415
Inventories	2,052	2,396	2,492	2,672	2,901
Debtors	1,302	1,614	1,673	1,737	1,780
Other Current Assets	984	642	504	555	610
Total Current Assets	4,421	4,852	5,574	7,266	8,706
Creditors	1,786	4,095	3,899	3,947	4,286
Other Current Liabilities & Provns	2,636	1,653	1,152	1,252	1,377
Total Current Liabilities	4,422	5,748	5,051	5,198	5,662
Net Current Assets	(1)	(896)	523	2,067	3,044
TOTAL APPLICATION OF FUNDS	7,075	7,223	8,753	9,975	10,811

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	82	822	1,141	1,606	1,482
Non-operating & EO Items	238	(56)	(70)	(525)	(131)
Interest Expenses	479	412	422	364	251
Depreciation	879	920	788	815	877
Working Capital Change	(12)	1,012	(715)	(146)	135
Tax Paid	3	(464)	(366)	(549)	(496)
OPERATING CASH FLOW (a)	1,669	2,647	1,201	1,566	2,118
Capex	(1,170)	(2,052)	(954)	(447)	(687)
<i>Free Cash Flow (FCF)</i>	<i>499</i>	<i>595</i>	<i>247</i>	<i>1,119</i>	<i>1,431</i>
Investments	(94)	68	94	(45)	(50)
Non-operating Income	(238)	56	70	525	131
INVESTING CASH FLOW (b)	(1,502)	(1,928)	(791)	33	(606)
Debt Issuance/(Repaid)	318	(136)	(1,277)	266	(31)
Interest Expenses	(479)	(412)	(422)	(364)	(251)
<i>FCFE</i>	<i>338</i>	<i>47</i>	<i>(1,452)</i>	<i>1,021</i>	<i>1,148</i>
Share Capital Issuance	101	25	2,094	(0)	-
Dividend	(94)	(79)	(102)	(102)	(117)
FINANCING CASH FLOW (c)	(154)	(603)	294	(200)	(400)
NET CASH FLOW (a+b+c)	13	117	704	1,399	1,112
Closing Cash & Equivalents	83	200	904	2,303	3,415

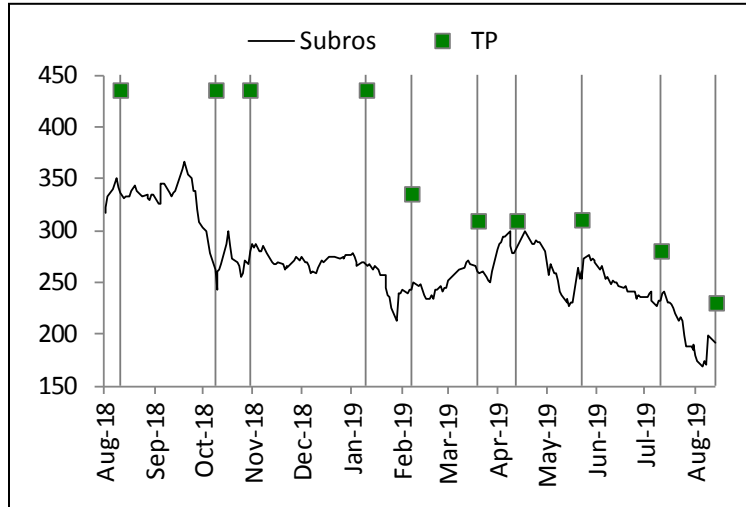
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	30.5	30.2	30.1	29.3	29.5
EBITDA Margin	10.9	11.0	10.7	10.2	10.3
EBIT Margin	5.2	6.2	7.0	6.5	6.7
APAT Margin	2.3	3.2	3.7	3.6	4.1
RoE	10.5	16.4	14.5	10.9	12.0
RoIC (or Core RoCE)	19.2	12.4	13.4	12.4	14.1
RoCE	12.1	12.1	12.5	10.3	10.3
EFFICIENCY					
Tax Rate (%)	(62.9)	26.5	33.2	33.4	33.5
Fixed Asset Turnover (x)	2.9	2.7	3.0	3.3	3.6
<i>Inventory (days)</i>	<i>49</i>	<i>46</i>	<i>43</i>	<i>44</i>	<i>44</i>
<i>Debtors (days)</i>	<i>31</i>	<i>31</i>	<i>29</i>	<i>29</i>	<i>27</i>
<i>Other Current Assets (days)</i>	<i>23</i>	<i>12</i>	<i>9</i>	<i>9</i>	<i>9</i>
<i>Payables (days)</i>	<i>42</i>	<i>78</i>	<i>67</i>	<i>65</i>	<i>65</i>
<i>Other Current Liab & Provns (days)</i>	<i>63</i>	<i>32</i>	<i>20</i>	<i>21</i>	<i>21</i>
Cash Conversion Cycle (days)	(2)	(21)	(7)	(4)	(6)
Debt/EBITDA (x)	1.9	1.4	0.4	(0.1)	(0.5)
Net D/E (x)	0.9	0.7	0.1	(0.0)	(0.2)
Interest Coverage (x)	1.7	2.9	3.5	4.0	6.4
PER SHARE DATA (Rs)					
EPS	5.8	10.3	12.0	12.2	15.1
CEPS	16.9	25.4	23.8	28.9	28.5
Dividend	1.3	1.1	1.3	1.3	1.5
Book Value	58.2	67.4	104.2	119.1	132.4
VALUATION					
P/E (x)	32.8	18.6	15.9	15.7	12.7
P/BV (x)	3.3	2.8	1.8	1.6	1.4
EV/EBITDA (x)	8.8	6.9	5.9	5.5	4.5
EV/Revenues (x)	1.0	0.8	0.6	0.6	0.5
OCF/EV (%)	11.4	18.3	8.9	12.7	18.9
FCF/EV (%)	3.4	4.1	1.8	9.1	12.8
FCFE/Mkt Cap (%)	2.7	0.4	(11.6)	8.2	9.2
Dividend Yield (%)	0.7	0.6	0.7	0.7	0.8

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Aug-18	335	BUY	435
8-Oct-18	275	BUY	435
30-Oct-18	268	BUY	435
9-Jan-19	270	BUY	435
7-Feb-19	243	BUY	335
19-Mar-19	261	BUY	309
12-Apr-19	279	BUY	309
22-May-19	261	BUY	310
10-Jul-19	233	BUY	280
14-Aug-19	192	BUY	230

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

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