

Institutional Equity Research

Subros

Automobile | India

Management Meet Update | Dec 24, 2019

CMP* (Rs)	241
Bloomberg Ticker	SUBR IN
Market Cap. (Rs bn)	14.5
Free Float (%)	63
Shares O/S (mn)	60

NOT RATED

New Business Coupled with Automobile Revival to Drive Revenues; NOT RATED

We recently met the senior management of Subros Ltd. (SUBR), a leading manufacturer of car AC and cooling modules. SUBR, founded in 1985 as a JV public limited company with 40% ownership by Suri family of India and 13% ownership by Denso Corporation (Denso) & Suzuki Motor Corporation (SMC). It is primarily engaged into the manufacturing of thermal products for automotive applications in India in technical collaboration with Denso. The Company has three key product verticals for PVs i.e. (1) Compressors; (2) Condensers; and (3) HVAC, which jointly contribute ~90% to its revenues. Other small business like tubes and hoses, bus AC, rail AC, transport refrigerator and home AC components contribute ~10% to its revenues. SUBR is expected to drive its revenue growth from new products and new business like Home A/C, going forward. Looking ahead, we expect strategy of business diversification, focus on deleveraging balance sheet and increase profitability will result in decent improvement in SUBR's financial performance.

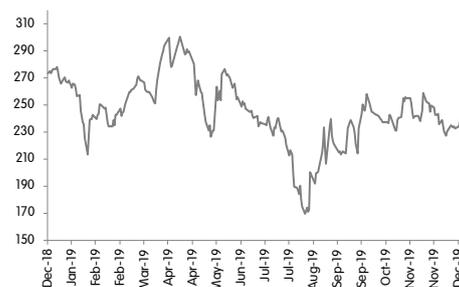
Key Takeaways

- ▶ **Strong Market Share Position across Products:** SUBR enjoys market leadership across product segments. Its market share in Passenger Car AC segment has improved from 40% to 41% over FY18-FY19, while its market share stood at 47%, 37% and 30% in HVAC, Compressors and Condensers segments, respectively. In CV space, its market share hovers at ~60% (with market share of 70% & 40% in the blowers & AC systems, respectively). Company fulfils ~60% of Maruti Suzuki's A/C requirements.
- ▶ **High PV Contribution ~90%:** SUBR's key revenue contributor is PV with ~90% contribution. Its Car AC segment contributes ~80% to its total revenue. While ECM contributes 11% and other segments like railway coach, vehicle refrigerators, home AC components etc. contribute the balance 9%. SUBR aims to de-risk its business by increasing non-PV contribution, going forward. It expects PV contribution to fall to 72% from current level of 90% by FY21E, as the share of other segments is expected to increase to 27%. Its new business of Home A/C is fastest growing business albeit on a low base.
- ▶ **MSIL – Contributes 70% to SUBR's Biz:** MSIL is the biggest customer of SUBR, which contributes ~70% to its revenue, while M&M and Tata Motors also contribute sizable chunk within PV segment. Other customers include SML Isuzu, Force Motors, Denso, Daimler, Ashok Leyland, Medha and Bombardier. It also started supplying home AC components to Voltas. Management indicated improvement in production schedule over next 2-3 months across PV players.

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(3.6)	0.0	(12.0)
Relative to Nifty	(6.1)	(5.3)	(26.6)

Shareholding Pattern (%)	Jun-18	Sep-19
Promoter	36.8	36.8
Public	63.2	63.2

1 Year Stock Price Performance



Note: * CMP as on Dec 24, 2019

Financial Performance (Standalone)					
Y/E March (Rs mn)	FY15	FY16	FY17	FY18	FY19
Net Sales	11,972	13,069	15,349	19,129	21,245
EBITDA	1,368	1,522	1,604	2,092	2,272
EBITDA margin (%)	11.4	11.6	10.5	10.9	10.7
Adj. Net Profit	203	241	519	614	777
EPS(Rs.)	3.4	4.0	8.7	10.2	11.9
YoY growth (%)	1.4	18.5	115.5	18.2	26.7
RoE (%)	7.7	11.0	4.4	17.8	15.1
RoCE (%)	8.3	9.6	12.9	12.6	12.8
PER (x)	71.1	60.0	27.8	23.6	20.2
P/BV	4.6	4.3	4.2	3.6	2.3
EV/ EBITDA	13.6	12.0	11.5	8.7	7.0

Source: Company, Capitaline, Note: FY17 financials were distorted due to impact of fire at plant.

Research Analyst: Mitul Shah

Contact: 022 4303 4628

Email: mitul.shah@relianceada.com

Institutional Equity Research

Subros

Automobile | India

CMP* (Rs) 241

Bloomberg Ticker SUBR IN

NOT RATED

- ▶ **Key Catalysts for Business Growth:** The Management cited increasing focus on non-PV segment, home A/C segment, likely mandatory AC cabins for truck in future, increasing requirement for refrigerated vehicles to reduce food wastage, new avenues from radiators, benefit of new product development from Denso's global support on technology side are the key business drivers. In the next 3-4 years, SUBR aims revenues of Rs1.5bn, Rs0.25bn and Rs0.75-1bn from railway AC coach (including AMC), refrigerated vehicles and home ACs, respectively.
- ▶ **Started BS-VI Supply:** SUBR has already started supply of components for BS-VI PVs. It is positive on BS-VI implementation from FY21, as it would increase demand for petrol vehicles. SUBR would benefit from increase in petrol vehicle demand post BS-VI, as it has stronger presence in petrol vehicles segment. Moreover, government's focus on electric buses would increase AC demand due to >80% AC penetration in E-buses compared to just 20% in regular buses. It would also help additional revenues from AMCs as well. It expects no major change in operating margins for its BS-VI products.
- ▶ **Home A/C is Key Growth Driver:** Its biggest growth driver would be home A/C segment over next 2-3 years. It expects revenues of Rs1.35bn from this segment in FY20 as against ~Rs10mn in FY19. It targets annual revenue of Rs3bn from this segment in FY21 and Rs4bn in FY22. This business has a potential to clock revenue of Rs6bn from this facility at full capacity of production of 500,000 units. Currently company is catering to single client i.e. Voltas, while it is in advance discussion with Havells regarding supply of home A/C and its components.
- ▶ **Targets 13% EBITDA Margin in next 3-4 Years:** The Management aims to improve its EBITDA margins from ~11% in FY19 to 13% in next 3-4 years. Current margins are impacted by slowdown in automobile sales, lower margins of home A/C segment and higher import content of 25%. Its margin would increase with scale and higher contribution from petrol PVs as its margins in diesel vehicles kit is low due to low economy of scale. It targets home A/C PBT of 4-6% in next 2-3 years. Cost control measures, improving operational efficiency, reducing logistics cost by supplying near to OEM plants, increasing localisation, and in-house tool development etc. would improve profitability.
- ▶ **Capacity Expansion & Capex:** SUBR's current utilisation stands at ~75%. It has already spent sizable capex of Rs1.6bn towards capacity expansion and Greenfield plant in Gujarat, which became operational last year. In FY20, SUBR plans total capex of Rs0.8bn due to incremental capex for its Gujarat based Karsanpura plant, while next year onwards it expects capex to normalise at lower level of Rs0.4-0.5bn. SUBR's long term debt reduced from Rs1.53bn in FY18-end to Rs0.85bn at present, which would lead to lower interest cost, going forward. It has working capital loan of Rs1.5bn. It plans to be debt free company in next 1 – 1.5 years.

Institutional Equity Research

Subros

Automobile | India

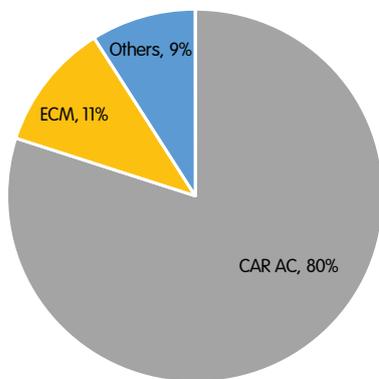
CMP* (Rs)	241
Bloomberg Ticker	SUBR IN

NOT RATED

Our View

Over the years, SUBR has expanded its market share and put in strong efforts to increase its passenger vehicle clientele base. It has no major impact of change in emission norm, while incremental focus on home A/C, bus A/C segment would result into decent revenue growth due to higher usage of AC in E-buses. Strategic focus on new products, thrust on indirect exports through India-based global sourcing by major OEMs, cost saving initiatives and debt reduction augurs well for the Company. We expect SUBR to record double-digit revenue growth over the next 2-3 years and margin is expected to improve from the current level. Likely improvement in asset turnover would improve SUBR's return ratio, going forward.

Exhibit 1: Revenue Break up by Products



Source: Company, Capitaline

Exhibit 2: Revenue Break up by OEM Segments

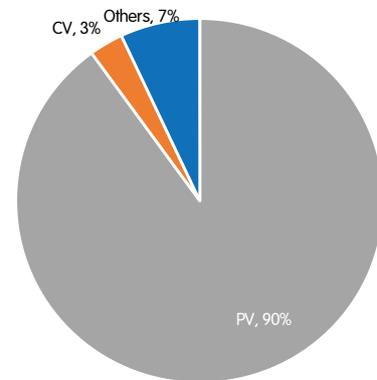
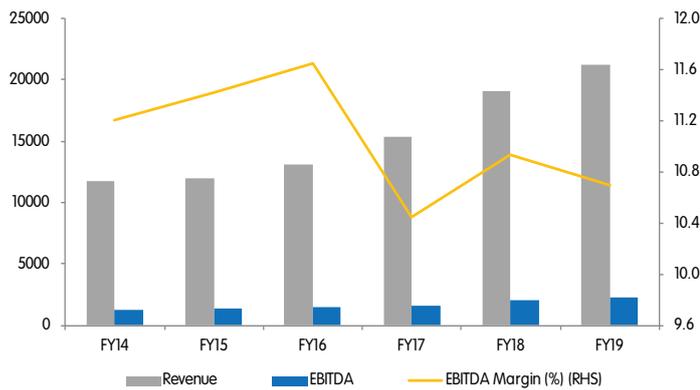
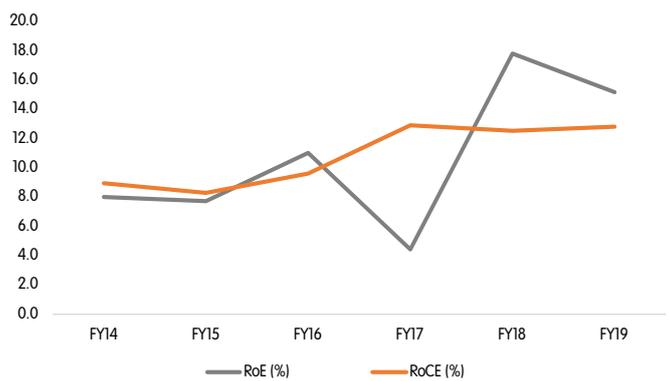


Exhibit 3: Revenue, EBITDA & EBITDA Margin over the Years



Source: Company, Capitaline

Exhibit 4: RoE & RoCE over the Years



Institutional Equity Research

Subros

Automobile | India

CMP* (Rs) 241

Bloomberg Ticker SUBR IN

NOT RATED**Profit & Loss Statement (Standalone)**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18	FY19
Net revenue	11,972	13,069	15,349	19,129	21,245
Expenditure	10,604	11,547	13,745	17,037	18,973
Raw Materials	8,141	8,834	10,670	13,350	14,841
Employee Expenses	1,117	1,262	1,537	1,881	2,065
Other expenditure	1,346	1,451	1,538	1,806	2,068
EBITDA	1,368	1,522	1,604	2,092	2,272
Depreciation & amortization expense	787	864	879	920	789
EBIT	581	659	725	1,172	1,483
Non-operating income	10	24	73	74	103
Interest including finance charges	387	417	479	412	422
Adjusted pre-tax profit	204	266	319	834	1,164
Extra Ordinary Exp	-	1	237	10	24
Reported pre-tax profit	204	264	82	824	1,140
Less: taxes	1	24	(52)	218	378
Reported net profit	203	240	133	606	761
Adjusted net profit for shareholders	203	241	519	614	777
EPS (Rs), based on fully diluted shares	3.4	4.0	8.7	10.2	11.9
Fully diluted shares outstanding (mn)	60	60	60	60	65

Source: Company, Capitaline

Balance Sheet (Standalone)

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18	FY19
Equity capital	120	120	120	120	131
Reserves and surplus	3,051	3,234	3,358	3,928	6,671
Total equity	3,171	3,354	3,478	4,048	6,801
Deferred tax liability (net)	270	295	(153)	(114)	13
Total borrowings	4,197	3,901	4,044	3,851	2,441
Current liabilities	2,089	2,460	3,734	5,080	4,551
Total liabilities	9,727	10,009	11,103	12,865	13,806
Cash and cash equivalents	69	70	38	198	899
Inventory	1,734	1,766	2,052	2,396	2,492
Trade receivables	776	986	1,302	1,614	1,673
Total current assets	2,580	2,822	3,393	4,209	5,064
Gross block	10,935	12,083	5,853	8,472	9,341
Less: depreciation & amortization	5,572	6,452	882	1,775	2,440
Add: capital work-in-process	885	541	1,492	898	860
Total fixed assets	6,248	6,173	6,463	7,595	7,761
Investments	25	25	25	25	23
Other assets	874	989	1,223	1,036	958
Total assets	9,727	10,009	11,103	12,865	13,806

Source: Company, Capitaline

Institutional Equity Research

Subros

Automobile | India

CMP* (Rs) 241

Bloomberg Ticker SUBR IN

NOT RATED

Cash Flow Statement (Standalone)

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18	FY19
Operating cashflow					
Pre-tax income	204	264	82	824	1,140
Add: depreciation and amortization	787	864	879	920	789
Add: interest expense (net)	380	412	364	405	394
Less: other adjustments	-	2	(4)	71	(90)
Less: taxes paid	(44)	(58)	(22)	(140)	(242)
Add: working capital changes	94	2	(190)	1,075	(990)
Total operating cashflow	1,421	1,486	1,108	3,156	1,000
Investing cashflow					
Capital expenditure	(958)	(678)	(781)	(2,312)	(1,269)
Investments	-	-	30	5	12
Total investing cashflow	(958)	(678)	(751)	(2,306)	(1,258)
Financing cashflow					
Share issuances	-	-	-	-	2,092
Loans	(198)	(296)	186	(206)	(1,441)
Dividend	(49)	(51)	(48)	(30)	(66)
Less: Others	321	66	8	43	820
Total financing cashflow	(417)	(752)	(328)	(670)	1,007
Net change in cash	46	56	28	179	750
Opening cash	23	14	10	20	150
Closing cash	69	70	38	199	899

Source: Company, Capitaline

Key Ratios (Standalone)

Y/E Mar	FY15	FY16	FY17	FY18	FY19
Growth Ratios (%)					
Net revenue	2.2	9.2	17.4	24.6	11.1
EBITDA	4.2	11.3	5.4	30.4	8.6
Adjusted net profit	1.4	18.5	115.5	18.2	26.7
Ratios (%)					
Effective tax rate	0.4	9.2	(63.0)	26.4	33.2
EBITDA margin	11.4	11.6	10.5	10.9	10.7
Adjusted net income margin	1.7	1.8	3.4	3.2	3.7
ROaCE	8.3	9.6	12.9	12.6	12.8
ROaE	7.7	11.0	4.4	17.8	15.1
Total asset turnover ratio (x)	1.3	1.3	1.5	1.6	1.6
Inventory days	53	49	49	46	43
Debtor days	24	28	31	31	29
Creditor days	64	69	89	97	78
Per share numbers (Rs)					
Diluted earnings	3.4	4.0	8.7	10.2	11.9
Free cash	7.7	13.5	5.5	14.1	(4.1)
Book value	52.9	55.9	58.0	67.5	104.2
Valuations (x)					
P/E	71.1	60.0	27.8	23.6	20.2
EV/EBITDA	13.6	12.0	11.5	8.7	7.0
P/B	4.6	4.3	4.2	3.6	2.3

Source: Company, Capitaline

Institutional Equity Research

Subros

Automobile | India

CMP* (Rs) 241

Bloomberg Ticker SUBR IN

NOT RATED**Rating Guides**

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

Reliance Securities Limited (RSL), the broking arm of Reliance Capital is one of the India's leading retail broking houses. Reliance Capital is amongst India's leading and most valuable financial services companies in the private sector. Reliance Capital has interests in asset management and mutual funds, life and general insurance, commercial finance, equities and commodities broking, wealth management services, distribution of financial products, private equity, asset reconstruction, proprietary investments and other activities in financial services. The list of associates of RSL is available on the website www.reliancecapital.co.in. RSL is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014

General Disclaimers: This Research Report (hereinafter called 'Report') is prepared and distributed by RSL for information purposes only. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through RSL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security(ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by RSL to be reliable. RSL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of RSL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report.

Risks: Trading and investment in securities are subject to market risks. There are no assurances or guarantees that the objectives of any of trading / investment in securities will be achieved. The trades/ investments referred to herein may not be suitable to all categories of traders/investors. The names of securities mentioned herein do not in any manner indicate their prospects or returns. The value of securities referred to herein may be adversely affected by the performance or otherwise of the respective issuer companies, changes in the market conditions, micro and macro factors and forces affecting capital markets like interest rate risk, credit risk, liquidity risk and reinvestment risk. Derivative products may also be affected by various risks including but not limited to counter party risk, market risk, valuation risk, liquidity risk and other risks. Besides the price of the underlying asset, volatility, tenor and interest rates may affect the pricing of derivatives.

Disclaimers in respect of jurisdiction: The possession, circulation and/or distribution of this Report may be restricted or regulated in certain jurisdictions by appropriate laws. No action has been or will be taken by RSL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. RSL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to RSL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Disclosure of Interest: The research analysts who have prepared this Report hereby certify that the views /opinions expressed in this Report are their personal independent views/opinions in respect of the securities and their respective issuers. None of RSL, research analysts, or their relatives had any known direct /indirect material conflict of interest including any long/short position(s) in any specific security on which views/opinions have been made in this Report, during its preparation. RSL's Associates may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report. RSL, its Associates, the research analysts, or their relatives might have financial interest in the issuer company(ies) of the said securities. RSL or its Associates may have received a compensation from the said issuer company(ies) in last 12 months for the brokerage or non brokerage services. RSL, its Associates, the research analysts or their relatives have not received any compensation or other benefits directly or indirectly from the said issuer company(ies) or any third party in last 12 months in any respect whatsoever for preparation of this report.

The research analysts has served as an officer, director or employee of the said issuer company(ies)?: No

RSL, its Associates, the research analysts or their relatives holds ownership of 1% or more, in respect of the said issuer company(ies).?: No

Copyright: The copyright in this Report belongs exclusively to RSL. This Report shall only be read by those persons to whom it has been delivered. No reprinting, reproduction, copying, distribution of this Report in any manner whatsoever, in whole or in part, is permitted without the prior express written consent of RSL.

RSL's activities were neither suspended nor have defaulted with any stock exchange with whom RSL is registered. Further, there does not exist any material adverse order/judgments/strictures assessed by any regulatory, government or public authority or agency or any law enforcing agency in last three years. Further, there does not exist any material enquiry of whatsoever nature instituted or pending against RSL as on the date of this Report.

Important These disclaimers, risks and other disclosures must be read in conjunction with the information / opinions / views of which they form part of.

RSL CIN: U65990MH2005PLC154052. SEBI registration no. (Stock Brokers: NSE - INB / INF / INE 231234833; BSE - INB / INF / INE 011234839, Depository Participants: CDSL IN-DP-257-2016 IN-DP-NSDL-363-2013, Research Analyst: INH000002384); AMFI ARN No.29889.