

28 Dec 2018

Initiating Coverage (BUY)

SUBROS LTD

CMP

INR 266

Target Price

INR 332

Stock Details

| | |
|---------------------------------|------------------------|
| Industry | Auto Parts & Equipment |
| Bloomberg Code | SUBR:IN |
| BSE Code | 517168 |
| Face Value (Rs.) | 2.00 |
| Market Cap. (Rs. mn) | 17,807 |
| 52wk. Low/High (Adjusted) (Rs.) | 234.70/442.00 |

Shareholding Pattern Sept '18

| | |
|-------------------------------|-------|
| Promoter (%) | 36.79 |
| FII (%) | 0.00 |
| DII (%) | 0.00 |
| Public - Other (%) | 63.21 |
| No. of Share Outstanding (mn) | 65.23 |

Valuation Summary

| | FY 17A | FY 18A | FY 19P | FY 20P |
|---------------|--------|--------|--------|--------|
| P/E (x)* | 91.05 | 27.06 | 25.00 | 18.00 |
| EV/EBITDA (x) | 8.38 | 8.83 | 8.45 | 6.71 |
| P/BV (x) | 1.61 | 3.65 | 4.40 | 4.25 |

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

| Rs. Mn | FY 17A | FY 18A | FY 19P | FY 20P |
|------------|--------|--------|--------|--------|
| Net Sales | 15,535 | 19,696 | 21,665 | 23,398 |
| EBITDA | 1,703 | 2,172 | 2,370 | 2,885 |
| Net Profit | 140 | 606 | 803 | 1203 |
| EPS (Rs.)* | 2.3 | 10.1 | 12.3 | 18.4 |

*Un adjusted

Key Ratios

| | FY 17A | FY 18A | FY 19P | FY 20P |
|---------------------|--------|--------|--------|--------|
| EBITDA Margin (%) | 10.9 | 11.0 | 10.9 | 12.3 |
| EBIT Margin (%) | 5.3 | 6.3 | 7.3 | 8.9 |
| Net Pro. Margin (%) | 0.9 | 3.1 | 3.7 | 5.1 |
| Debt/Equity (x) | 0.45 | 0.38 | 0.32 | 0.26 |
| RoNW (%) | 4.1 | 16.1 | 18.3 | 22.6 |
| RoCE (%) | 2.6 | 11.1 | 13.5 | 17.5 |



We recommend 'BUY' on SUBROS LTD for a target of INR 332 - valuing the company at P/E 18x of FY20E Earning.

INVESTMENT RATIONALE:

- India's leading thermal products company for automotive applications.
- Steady PV industry growth to drive Subros' revenue.
- Long-term prospects of PV industry favorable; MSIL to benefit the most.
- The company had secured new order for supplying compressor for Baleno, new swift, Tata Tiago and Nexon which boosted overall revenue.
- Subros enjoys a strong balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead.
- Mandatory AC/ blower cabin for trucks – The next big opportunity for Subros.
- Gujarat second new plant in line with Suzuki's long term expansion plans.
- Subros non Car AC & Non Maruti segment also growing rapidly .
- Changing revenue mix, localization and operating leverage to boost margins.
- Radiators Business to also contribute significantly to the Topline for Subros going ahead.

VALUATIONS AND VIEW:

Subros is a well diversified player operating in the PV, CV, Railway and Consumer Durable segments. It is India's leading thermal products company for automotive applications. Subros is a listed company and is a joint venture between Suri Group, Denso Corporation Japan and Suzuki Motor Corporation Japan. We value the business at 18x FY20E EPS and recommend a BUY rating on the stock with a target price of INR 332 per share.

RISK & CONCERNS:

- Subros is highly dependent on the growth of PV segment in India. Any slowdown in the economy would impact the growth of automobile industry, which could adversely affect Subros's revenue
- Volatility in raw material prices (Polypropylene, steel and aluminum) could impact margins and profitability.
- Concentration risk due to high dependency on few customers (~75% turnover comes from Maruti).
- Entry of new players and expansion plans of existing competitors has increased intensity of competition in almost all the segments of the Indian automotive market. The Company is aware of increasing competition and is taking adequate measures to remain competitive in the market place.
- The Company continues to face strong competitive pressures from both, domestic and overseas suppliers. It is also exposed to financial risk from changes in interest rates, foreign exchange rates, and commodity prices.

COMPANY BACKGROUND:

Established in 1985, Subros is India's leading supplier of Thermal Systems for Automotive applications. The company is engaged in the design, manufacturing and supplying of high quality products to all major auto makers in the passenger and commercial vehicle space covering Railways and Home A/C applications. Subros is a listed company and is a joint venture between Suri Group, Denso Corporation Japan and Suzuki Motor Corporation Japan. Denso is also the company's technology partner and is a leading global supplier of advanced automotive technology systems and components in the auto arena.

Subros Limited, founded in 1985 as a joint venture public limited company with 40% ownership by Suri family of India and 13% ownership by Denso Corporation & Suzuki Motor Corporation each, is the leading manufacturer of thermal products for automotive applications in India, in technical collaboration with Denso.

Subros has manufacturing plants at Noida, Manesar, Pune, Chennai and Sanand with an annual capacity of 1.5 Million AC Kits per annum beside a well equipped R&D Center and Tool Room at Noida. The company has grown from a capacity of 15,000 AC units in 1985 comprising of largely an assembly operation, into the largest and only integrated manufacturing unit in India for Auto Air Conditioning systems. Subros manufactures compressors, Condensers, Heat Exchangers and all connecting elements required to complete AC loop and caters to all segments viz. Passenger Vehicles, Buses, Trucks, Refrigeration Transport, off-roaders & Railways.

INDUSTRY OVERVIEW:

The financial year 2017-18 was marked by a number of key structural initiatives to build strength across macro-economic parameters for sustainable growth in the future. While the Indian economy seems to have turned the corner and economic fundamentals look strong, significant risks may loom on the horizon in the form of rising oil prices, higher interest rates and bond yields, worsening bank balance sheets, weakening trade, and pressure on the currency. 1.2 The growth in the first half of the financial year under review suffered despite global tail winds. However, the weakness seen at the beginning of 2017 seems to have bottomed out as 2018 set in. Currently, the economy seems to be on the path to recovery, with indicators of industrial production, stock market index, auto sales, and exports showing some uptick. After registering GDP growth of over 6.5 per cent in FY 2017-18, the Indian economy is expected to regain its momentum, recovering from disruptions caused by demonetization and implementation of the goods and services tax (GST), to expand at 7.3 per cent in FY 2018-19. The automotive industry occupies a prominent place in the economy. It has a strong multiplier effect and is capable of being the driver of economic growth. India has distinct global advantage of being the high quality, low cost producer of auto components. As a result, India is seen as a major sourcing hub for auto components by developed economies. Almost every global auto major has set up facilities in the country, making Indian automotive industry one of the most competitive in the world. Therefore, the growth potential for the Indian auto component industry is promising.

PEER COMPARISON

| Company | CMP (Rs) | P/E* | Mcap (Rs Cr) | Div Yld (%) | NP Qtr (Rs Cr) | Qtr Profit Var (%) | Sales Qtr (Rs Cr) | Qtr Sales Var (%) | CMP/BV |
|------------------|--------------|-------------|----------------|-------------|----------------|--------------------|-------------------|-------------------|-------------|
| Bosch | 19,416 | 36.4 | 59,257.5 | 0.51 | 420.0 | 18.86 | 3,201.1 | 13.84 | 22.73 |
| Exide Inds. | 166 | 20.3 | 21,879.0 | 0.93 | 268.4 | 17.03 | 2,720.4 | 15.35 | 5.24 |
| Amara Raja Batt. | 746 | 26.7 | 12,737.5 | 0.56 | 120.2 | (5.49) | 1,753.1 | 22.81 | 24.92 |
| Varroc Engineer | 671 | 19.6 | 9,046.5 | 0.07 | 100.9 | 8.95 | 3,001.1 | 24.05 | 15.52 |
| Endurance Tech. | 1,161 | 35.4 | 16,325.3 | 0.34 | 125.2 | 25.61 | 1,936.7 | 23.18 | 23.06 |
| Sundaram Clayton | 3,454 | 19.6 | 6,988.4 | 0.43 | - | - | - | - | 18.67 |
| Subros | 266.1 | 25.0 | 1,735.8 | 0.37 | 23.8 | 51.85 | 564.0 | 13.45 | 4.29 |

*TTM

FINANCIAL OVERVIEW

Q3 FY18 Performance Highlight

| (in Million) | 18-Sep | 18-Jun | 18-Mar | 18-Jun | 18-Sep | YoY (%) | QoQ (%) |
|-----------------|-----------|-----------|-----------|-----------|-----------|---------|---------|
| Revenue | 4,971.50 | 4,487.70 | 5,521.50 | 5,316.90 | 5,640.30 | 13.45% | 6.08% |
| Other Income | 29.2 | 43.6 | -4.1 | 41.1 | 57.6 | | |
| Total Income | 5,000.70 | 4,531.30 | 5,517.40 | 5,358.00 | 5,697.90 | 13.94% | 6.34% |
| Expenditure | -4,539.00 | -4,112.70 | -4,999.20 | -4,920.60 | -5,180.60 | | |
| As a % of Sales | 91.30% | 91.64% | 90.54% | 92.55% | 91.85% | | |
| Interest | -102 | -101.5 | -114.6 | -140.2 | -133.4 | 30.78% | -4.85% |
| PBDT | 461.7 | 418.6 | 518.2 | 437.4 | 517.3 | | |
| As a % of Sales | 9.29% | 9.33% | 9.39% | 8.23% | 9.17% | | |
| Depreciation | -228.1 | -239.6 | -241.9 | -187.6 | -199.1 | | |
| PBT | 233.6 | 179 | 276.3 | 249.8 | 318.2 | 36.22% | 27.38% |
| As a % of Sales | 4.70% | 3.99% | 5.00% | 4.70% | 5.64% | | |
| Tax | -82.8 | -14.7 | -90.4 | -60.5 | -80.1 | -3.26% | 32.40% |
| Net Profit | 150.8 | 164.3 | 185.9 | 189.3 | 238.1 | 57.89% | 25.78% |
| As a % of Sales | 3.03% | 3.66% | 3.37% | 3.56% | 4.22% | | |
| Equity | 120 | 120 | 120 | 120 | 120 | 0.00% | 0.00% |
| EPS (Rs) | 2.51 | 2.74 | 3.1 | 3.15 | 3.97 | 58.17% | 26.03% |
| CEPS (Rs) | 6.32 | 6.73 | 7.13 | 6.28 | 7.29 | | |
| OPM % | 9.29 | 9.33 | 9.39 | 8.23 | 9.17 | | |
| NPM % | 3.03 | 3.66 | 3.37 | 3.56 | 4.22 | | |

Income Statement (Consolidated)

| Y/E Mar (Rs mn) | FY 15A | FY 16A | FY 17A | FY 18A | FY 19E | FY 20P | FY 21P |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Net Sales | 12,020 | 13,107 | 15,535 | 19,696 | 21,665 | 23,398 | 26,908 |
| Other Operating Income | 10 | 25 | 33 | 74 | - | 46 | 53 |
| Expenditure | 10,653 | 11,586 | 13,865 | 17,597 | 19,295 | 20,559 | 23,827 |
| EBITDA | 1,377 | 1,546 | 1,703 | 2,172 | 2,370 | 2,885 | 3,134 |
| Depreciation | 789 | 865 | 880 | 920 | 785 | 788 | 791 |
| EBIT | 588 | 681 | 824 | 1,252 | 1,585 | 2,097 | 2,343 |
| Interest Expenses | 387 | 417 | 422 | 412 | 520 | 525 | 625 |
| PBT | 201 | 264 | 401 | 840 | 1,065 | 1,571 | 1,717 |
| Tax | 1 | 24 | (48) | 218 | 263 | 369 | 400 |
| Other Income | - | - | - | - | - | - | - |
| Extraordinary Items | - | - | (310) | (17) | - | - | - |
| Net Income Before Adjustment | 200 | 239 | 140 | 606 | 803 | 1,203 | 1,318 |
| Minority Int./Income from Assoc. | - | - | - | - | - | - | - |
| Adjusted PAT | 200 | 239 | 140 | 606 | 803 | 1,203 | 1,318 |

Balance Sheet (Consolidated)

| Y/E Mar (Rs mn) | FY 15A | FY 16A | FY 17A | FY 18A | FY 19E | FY 20P | FY 21P |
|---|----------------|----------------|----------------|----------------|--------------|--------------|---------------|
| Equity share capita | 120 | 120 | 120 | 120 | 120 | 120 | 120 |
| Reserves & surplus | 3,049 | 3,231 | 3,370 | 3,924 | 4,602 | 5,805 | 7,123 |
| Misc Expenditure | - | - | - | - | - | - | - |
| Net worth | 3,169 | 3,351 | 3,490 | 4,044 | 4,722 | 5,925 | 7,243 |
| Minority Interest | - | - | - | - | - | - | - |
| Loan Funds | 2,143 | 1,890 | 1,584 | 1,526 | 1,528 | 1,526 | 1,524 |
| Net deferred tax liability | 270 | 295 | 246 | - | - | - | - |
| Other Long-term Liabilities | 4 | 4 | 7 | - | - | - | - |
| Long-term Provisions | 26 | 29 | 36 | 24 | 26 | 29 | 33 |
| Total Liabilities | 5,612 | 5,570 | 5,365 | 5,596 | 6,278 | 7,481 | 8,802 |
| Net block | 6,251 | 6,175 | 6,465 | 7,611 | 6,361 | 5,103 | 3,882 |
| Investment, Loan & Adv. | 469 | 489 | 595 | 508 | 528 | 402 | 511 |
| Total Current Assets | 3,012 | 3,348 | 4,438 | 4,852 | 6,677 | 9,336 | 12,469 |
| Current Liabilities & Provisions | 4,119 | 4,442 | 6,134 | 7,377 | 7,289 | 7,362 | 8,062 |
| Net Current Assets | (1,107) | (1,095) | (1,696) | (2,525) | (613) | 1,975 | 4,407 |
| Total Assets | 5,612 | 5,570 | 5,365 | 5,597 | 6,278 | 7,481 | 8,802 |

Cash Flow (Consolidated)

| Y/E Mar (Rs mn) | FY 18A | FY 19E | FY 20P | FY 21P |
|-----------------------------------|----------------|--------------|--------------|--------------|
| Operating Cash Flow | 3,154 | 2,014 | 2,580 | 2,863 |
| Cash Flow from Investments | (2,306) | (210) | 55 | (222) |
| Cash Flow from Financing | (719) | (391) | (384) | (337) |
| Net Changes in Cash | 129 | 1,412 | 2,251 | 2,304 |
| Opening Cash | 23 | 151 | 1,564 | 3,814 |
| Closing Cash Balance | 151 | 1,564 | 3,814 | 6,118 |

Research Analyst Details

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