

Subros Limited

Industry Auto Ancillary
Bloomberg SUBR IN
BSE CODE 517168

PV demand headwinds continued; margins to remain range bound

RATING	NEUTRAL
CMP	243
Price Target	254
Potential Upside	4%

Rating Change	↔
Estimate Change	↔
Target Change	↓

Stock Info

52wk Range H/L	380/206
Mkt Capital (Rs Cr)	1581
Free float (%)	34%
Avg. Vol 1M (,000)	26
No. of Shares (Cr.)	7
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

3QFY19 Result Update

- ❑ SUBROS has reported revenue growth of 13.8% YoY to Rs.511 crores (vs. our estimates of Rs.501 crores) during the quarter.
- ❑ Raw material cost increased by 1% during the quarter due to foreign exchange fluctuation and higher commodity prices. However, it is expected to be up in 4QFY19.
- ❑ EBITDA margin expanded largely on account of change in petrol-diesel car mix to 75:25 from 50:50 and higher sales of Truck AC/Blower segment which are relatively high margin product.
- ❑ Management guidance on EBITDA margins to be at 12% by FY20.
- ❑ PAT for the quarter stood at Rs.17 crores reduced by 80 bps on QoQ basis mainly due to higher tax expense and negative other income during the quarter.
- ❑ The management expects passenger car and non-passenger car revenue mix to stand at 85:15 from 90:10 in the next 2 years timeframe.
- ❑ Import content currently stood at 30% and it is expected to go down to 20% by the next two years. The management targets Blower motor because it consists of 90% of import content followed by condenser and evaporator.

View and Valuation

SUBROS has once again posted healthy revenue growth of 14%YoY in 3QFY19. EBITDA margins have improved by 60bps on sequential basis led by better product mix and stabilization in commodity prices. The passenger vehicle industry continues to struggle due to increased cost of ownership which led to higher inventory level in the system. However the inventory level has reduced as OEMs have offered heavy discounts during the quarter. The OEMs have witnessed some uptick in demand but the overall consumer sentiments continue to remain weak in January also. The upcoming and mandatory safety norms (ABS/Airbags/Reverse Parking and BS-VI) will continue to increase the vehicle prices to the tune of 12-15% in the span of next 12-15 months. Going ahead management's focus towards increasing non-passenger car pie (10% of sales), increase in localization and debt reduction plan will improve the bottom-line in the long run. Considering the headwinds such as; uncertain demand scenario across industry and currency depreciation (30% import content) we value SUBROS at 14x FY20e EPS to arrive at a target price of Rs.254 and maintain Neutral.

Key Risks to our rating and target

- ❑ Dependency on single largest customer (Maruti 70% of Revenue)
- ❑ Depreciation of INR

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1311	1554	1913	2198	2516
EBITDA	152	167	210	240	287
EBIT	66	79	118	156	190
PAT	24	14	61	85	119
EPS (Rs)	4	2	10	13	18
EPS growth (%)		-42%	334%	29%	40%
ROE (%)	7%	4%	15%	12%	15%
ROCE (%)	13%	16%	21%	20%	22%
BV	56	58	67	106	123
P/B (X)	1.6	3.6	4.3	2.3	2.0
P/E (x)	22.1	91.1	28.7	18.7	13.4

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3QFY19 Results

PAT in-line with expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	449	552	532	564	511	14%	-9%	1,554	1,913	23%
Other Income	4	(0)	4	6	(2)	-136%	-127%	3	7	121%
Total Income	453	552	536	570	509	12%	-11%	1,557	1,920	23%
COGS	310	382	374	396	352	13%	-11%	1,067	1,335	25%
Staff Cost	48	54	53	54	51	8%	-4%	157	188	20%
Other Exp.	43	53	49	55	51	18%	-8%	163	180	10%
Expenditure	401	488	475	505	454	13%	-10%	1,387	1,703	23%
EBITDA	48	64	57	59	57	19%	-4%	167	210	26%
Depreciation	24	24	19	20	20	-18%	-2%	88	92	5%
EBIT	24	40	38	39	37	57%	-5%	79	118	49%
Interest	10	11	14	13	8	-21%	-40%	42	41	-2%
PBT	18	28	28	32	28	55%	-13%	40	84	109%
Excpt. Item	-	-	3	-	-			31	2	-94%
Tax	1	9	6	8	11	617%	32%	(5)	22	-549%
PAT	16	19	19	24	17	5%	-28%	14	61	334%

Change in favorable revenue mix led to strong revenue growth

The company has reported healthy revenue growth of 13.8% YoY to Rs.511 crores (vs. our estimates of Rs.501 crores) in 3QFY19. PV and non PV mix remained at 90:10 level. The ECM revenue for the quarter stood at Rs.80 crores. The company has market share of over 70% in Truck AC/Blower segment and revenue from this segment is expected to be at a range of Rs.70-80 crores in FY19. The ECM revenue in FY20 expected to be around Rs.300-315 crores based on the collaboration with Denso for this business segment. The management expects overall revenue growth for the company to be in double digit for FY19 and 20.

Margin expansion largely on account of sale of higher margin product

Gross margins expanded by 140bps QoQ to 31.1% mainly due to higher sales of Truck AC/Blowers and price negotiations with OEMs which set off the negative impact of increase in raw material cost by 1% due to foreign exchange fluctuation and increased commodity prices. EBITDA margins were improved by 60bps on sequential basis to 11.1% during the quarter. The reduction in import content (30% of sales) will lead to gradual improvement in margins going ahead.

PAT margins were hampered led by higher tax rate and negative other income

PAT for the quarter stood at Rs.17 crores (vs. our estimates of Rs.17 crores). PAT margins were contracted by 80bps QoQ to 3.4% due to higher tax expenses and negative other income because of notional loss incurred by entering into a derivative contract for long term borrowings.

Concall Highlights :

- The management expects double digit growth in FY19.
- The bus segment is expected to generate Rs. 45 crores revenue in FY19.
- CV segment is expected to generate Rs. 60 crores in FY19 and around Rs. 86-90 crores in FY20.
- ECM business is able to generate Rs. 270 crores and Rs. 300-315 crores for FY19 and FY20 respectively.
- The company is focusing on expanding the non car segment from 8-10% to 14-15% by the next two years.
- Current capacity utilization in ECM segment is 85% and total capacity stood at 1.1 million. Further, the production capacity is expected to reach to 1.5 million by FY19.
- Gujarat plant capacity is expected to reach at 2 million by 1HFY20 currently from 1.5 million.
- DENSO is aiming to further strengthen their thermal business in the Indian market and also strengthen collaboration with Subros currently for AC business which will be continued with ECM business by Denso.
- Debt level is expected to be reduced by Rs. 50 crores out of internal accruals in FY20. Current debt level is Rs. 250 crores.
- Capex guidance for FY20 is Rs.60-70 crores other than research and development.
- Tax rate is expected to be at 32% and 34% for FY19 and FY20 respectively.

Exhibit: Net sales (Rs. Crore) and Growth Trend

14% YoY revenue growth led by increase in petrol car sales and higher truck AC/Blower sales

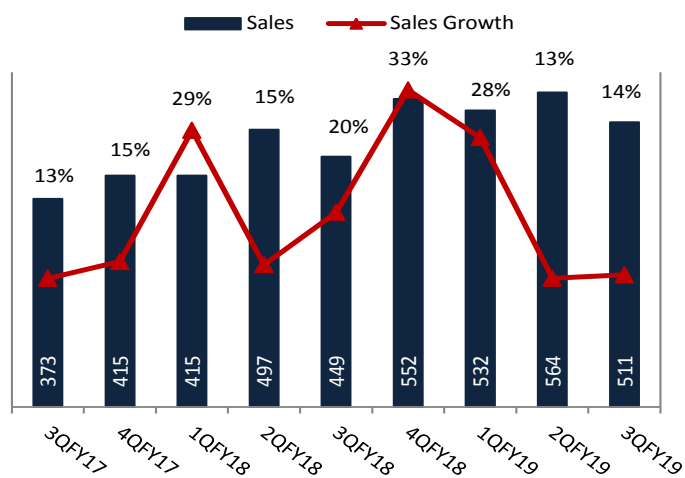


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margins remained flattish on account of higher employee cost and other expense.

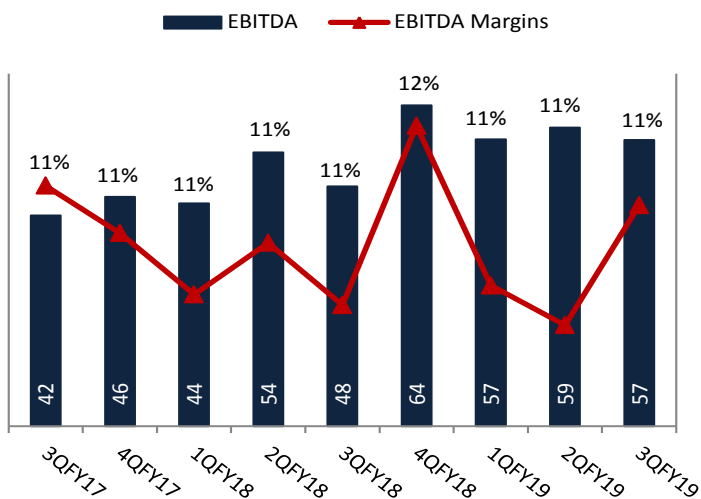


Exhibit: Maruti Volume Growth

Slowdown in passenger vehicle industry led to decline in Maruti volumes

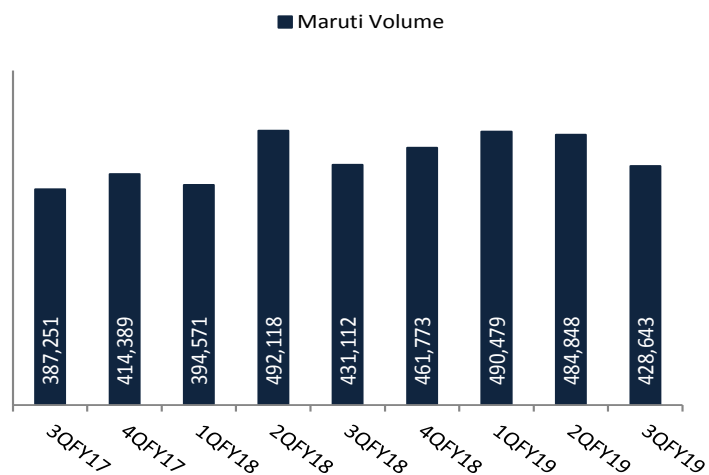


Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margin expansion was majorly due to better product mix and price negotiations.

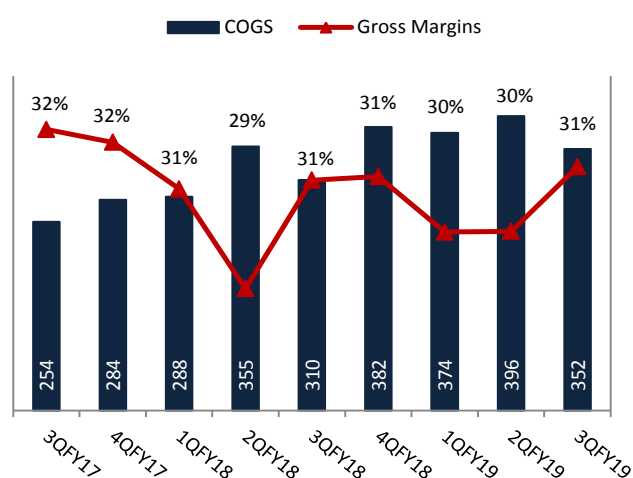


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher tax rate and negative other income contracted the PAT margins.

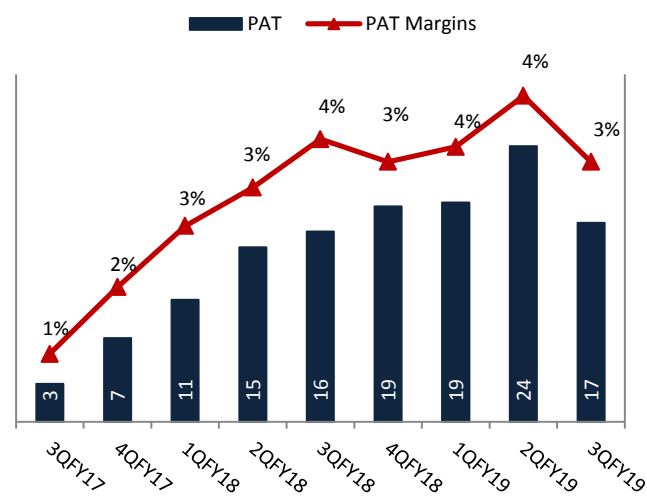
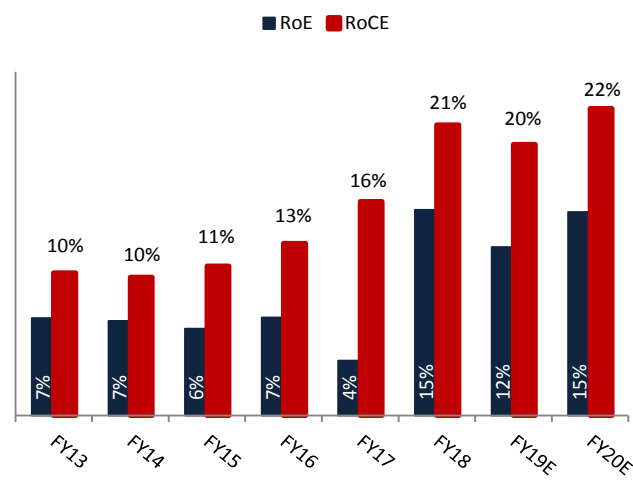


Exhibit: Return Ratios

Growth across the segments will lead to higher profitability.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	12	12	12	12	12	12	13	13
Reserves	274	290	305	323	337	392	679	788
Networth	286	302	317	335	349	404	692	801
Debt	293	334	333	297	329	315	211	163
Other Non Cur Liab	31	30	30	33	29	2	2	2
Total Capital Employed	476	543	531	524	507	557	790	851
Net Fixed Assets (incl CWIP)	552	587	625	617	646	760	802	780
Non Cur Investments								
Other Non Cur Asst	42	52	47	49	60	52	51	51
Non Curr Assets	595	639	672	666	706	812	853	831
Inventory	192	178	173	177	205	240	265	303
Debtors	45	61	79	99	131	161	175	200
Cash & Bank	11	11	8	8	9	20	166	218
Other Curr Assets	39	40	42	51	98	64	69	74
Curr Assets	286	290	301	335	444	485	674	795
Creditors	141	110	110	130	178	409	452	483
Provisons (both)	8	9	9	10	5	9	11	12
Other Curr Liab	121	144	174	197	260	156	160	165
Curr Liabilities	271	263	293	336	443	575	622	659
Net Curr Assets	15	27	8	(1)	1	(90)	52	136
Total Assets	881	929	973	1,001	1,150	1,297	1,527	1,626

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,277	1,176	1,202	1,311	1,554	1,913	2,198	2,516
Change (%)	14%	-8%	2%	9%	19%	23%	15%	14%
Other Income	11	2	1	3	3	7	11	13
EBITDA	122	132	137	152	167	210	240	287
Change (%)	27%	8%	3%	11%	10%	26%	15%	20%
Margin (%)	9.6%	11.2%	11.4%	11.6%	10.8%	11.0%	10.9%	11.4%
Depr & Amor.	73	77	79	87	88	92	85	97
EBIT	49	55	58	66	79	118	156	190
Int. & other fin. Cost	36	37	39	42	42	41	43	28
EBT	24	20	20	26	40	84	125	174
Exp Item	-	-	-	-	31	2	3	-
Tax	4	(1)	0	2	(5)	22	36	56
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	20	21	20	24	14	60	85	119
Adjusted PAT	20	21	20	24	14	61	85	119
Change (%)	-58%	3%	-4%	20%	-42%	334%	40%	40%
Margin(%)	1.6%	1.8%	1.7%	1.8%	0.9%	3.2%	3.9%	4.7%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	7.1%	6.9%	6.3%	7.1%	4.0%	15.0%	12.3%	14.8%
ROCE	10.4%	10.1%	10.9%	12.5%	15.6%	21.2%	19.7%	22.3%
Asset Turnover	1.4	1.3	1.2	1.3	1.4	1.5	1.4	1.5
Debtor Days	13	19	24	28	31	31	29	29
Inv Days	55	55	53	49	48	46	44	44
Payable Days	40	34	34	36	42	78	75	70
Int Coverage	1.4	1.5	1.5	1.6	1.9	2.9	3.7	6.7
P/E	6.9	7.9	17.0	22.1	91.1	28.7	18.7	13.4
Price / Book Value	0.5	0.5	1.1	1.6	3.6	4.3	2.3	2.0
EV/EBITDA	3	3	4	5	9	9	6	5
FCF per Share	7	(2)	8	14	(4)	14	14	21

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	24	20	20	26	9	82	125	174
(inc)/Dec in Working Capital	51	(34)	7	3	(26)	107	4	(32)
Non Cash Op Exp	73	77	79	87	88	92	85	97
Int Paid (+)	36	37	39	42	42	41	43	28
Tax Paid	(6)	(5)	(4)	(6)	(2)	(14)	(36)	(56)
others	2	2	2	1	6	6	-	-
CF from Op. Activities	179	98	142	152	117	315	220	212
(inc)/Dec in FA & CWIP	(137)	(110)	(95)	(70)	(142)	(231)	(127)	(75)
Free Cashflow	42	(12)	48	83	(25)	84	93	137
(Pur)/Sale of Inv								
others	1	1	1	0	66	1	-	-
CF from Inv. Activities	(135)	(109)	(94)	(69)	(76)	(231)	(127)	(75)
inc/(dec) in NW								
inc/(dec) in Debt	28	64	6	(30)	10	(12)	(105)	(48)
Int. Paid	(42)	(45)	(49)	(47)	(45)	(48)	(43)	(28)
Div Paid (inc tax)	(8)	(5)	(5)	(5)	(6)	(4)	(7)	(10)
others	(20)	-	-	-	7	(8)	(0)	-
CF from Fin. Activities	(42)	14	(48)	(82)	(34)	(72)	(154)	(86)
Inc(Dec) in Cash	2	3	1	1	7	13	(61)	51
Add: Opening Balance	2	2	3	2	2	2	15	161
Closing Balance	4	5	3	3	8	15	(46)	212

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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