

Industry Auto Ancillary
Bloomberg SUBR IN
BSE CODE 517168

New Home AC business to dampen margins

RATING	NEUTRAL
CMP	199
Price Target	224
Potential Upside	13%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	379/164
Mkt Capital (Rs Cr)	1220
Free float (%)	34%
Avg. Vol 1M (,000)	24
No. of Shares (Cr.)	7
Promoters Pledged %	0%

1QFY20 Result Update

- ❑ SUBROS has reported revenue growth of 7.6% YoY to Rs.572 crores (vs. our estimates of Rs.495 crores) during the quarter. The growth was largely driven by additional revenue of Rs.63 crores from Home AC segment.
- ❑ The PV and non PV mix stood at 85:15 levels. The Passenger car AC contributed Rs.484 crores including ECM and rest of the non passenger car AC business contributed around Rs.88 crores.
- ❑ Gross margin declined by 146 bps QoQ to 28.6% despite softening of commodity prices. EBITDA margin has also declined by 100 bps QoQ to 9.6% due to change in product mix and product segment.
- ❑ PAT for the quarter stood at Rs.42 crores (vs. our estimates of Rs.17 crores). PAT margins improved by 417 bps QoQ to 7.3% due to exceptional item gain incurred during the quarter.
- ❑ There was an exceptional item of Rs. 41.29 crores during 1QFY20 includes final claim settlement from Insurance Company against Manesar fire incident.
- ❑ The market share of the company in PV segment has reached 45% (increased by 3% YoY) despite the challenging environment during this year.

View and Valuation

EBITDA margin has declined by 100bps on sequential basis due to unfavorable product mix. The management expects margins to remain in the range of 11-12% while we expect that increased contribution from lower margin Home AC business will pull down the overall margins for the company. The passenger vehicle AC business (85% of revenue) will continue to be soft based on sharp decline in Maruti's volumes and further demand outlook remains uncertain for FY20. New Karsanpura plant which commenced production in June 2019 will keep the depreciation cost on the higher side. Factoring the slowdown in Passenger vehicle segment, margin compression and increase in depreciation cost we reduce our FY21e EPS estimate by 14%. We value SUBROS at 15x FY21e EPS to arrive at target price of Rs.224 and maintain Neutral.

Key Risks to our rating and target

- ❑ Dependency on single largest customer (Maruti 70% of Revenue)
- ❑ Depreciation of INR (import content 32% of sales)

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1,554	1,913	2,124	2,232	2,422
EBITDA	167	210	228	231	265
EBIT	79	118	149	141	165
PAT	14	61	76	109	97
EPS (Rs)	2	10	12	17	15
EPS growth (%)	(42)	334	16	43	(11)
ROE (%)	4%	15%	11%	14%	11%
ROCE (%)	16%	21%	20%	17%	19%
BV	58	67	104	119	132
P/B (X)	3.6	4.3	2.8	1.6	1.4
P/E (x)	91	29	25	11	13

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

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1QFY20 Results

PAT above estimates

Financials	Fig in Rs Cr									
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	532	564	511	518	572	8%	10%	1,913	2,124	11%
Other Income	4	6	(2)	2	2	-44%	20%	7	10	40%
Total Income	536	570	509	520	575	7%	10%	1,920	2,135	11%
COGS	374	396	352	362	409	9%	13%	1,335	1,484	11%
Staff Cost	53	54	51	49	56	6%	14%	188	207	10%
Other Exp.	49	55	51	52	53	9%	2%	180	206	14%
Expenditure	475	505	454	463	517	9%	12%	1,703	1,896	11%
EBITDA	57	59	57	55	55	-3%	0%	210	228	9%
Depreciation	19	20	20	21	22	15%	4%	92	79	-14%
EBIT	38	39	37	34	34	-12%	-2%	118	149	27%
Interest	14	13	8	7	15	3%	113%	41	42	2%
PBT	28	32	28	29	21	-24%	-27%	84	117	40%
Excpt. Item	3	-	-	-	(41)			2	3	84%
Tax	6	8	11	13	21	246%	58%	22	38	74%
PAT	19	24	17	16	42	121%	158%	61	76	26%

Revenue growth across segments

SUBROS has reported revenue growth of 7.6% YoY to Rs.572 crores in 1QFY20. The PV and non PV mix stood at 85:15 levels. In the PV, the AC segment contributed Rs.420 crores while non car AC segment contributed Rs.150 crores. ECM (Engine Cooling Module) contributed Rs. 64 crores in which trucks contributed Rs. 15 crores and Home AC contributed Rs. 62.6 crores. Railways contributed Rs. 2.5-3 crores. Revenue from CV business included buses and trucks which contributed Rs. 7 crores Rs. 14 crores respectively during the quarter. Higher sales was driven by higher revenues in Wagon R from Maruti, Renault Nissan, Railways and other business counter impacted with a decrease in business from other customers.

Margin declined due to change in product mix

Gross margin declined by 146 bps QoQ to 28.6% despite softening of commodity prices. EBITDA margin has also declined by 100 bps QoQ to 9.6% due to change in product mix and product segment. Margins are expected to be in the range of 11-12% in next 2-3 years. The reduction in import content (32% of sales) will lead to gradual improvement in margins going ahead.

PAT margins improved due to exceptional items

PAT for the quarter stood at Rs.42 crores. PAT margins improved by 417 bps QoQ to 7.3% due to exceptional item gain incurred during the quarter. There was an exceptional item of Rs. 41.29 crores during 1QFY20 includes final claim settlement from Insurance Company against Manesar fire incident.

Concall Highlights

- The management targets to generate revenue of Rs. 100-125 crores by the end of FY20 and Rs. 300 crores is targeted for next 2 years from Home AC segment. It generated revenue of Rs. 62 crores in Q1FY20.
- July and August months have been adversely impacted. There may be improvement seen from September month led by upcoming festive season.
- The company has made plans for new product developments in thermal products which are to be used in electric cars and buses going ahead.
- Revenue contribution from trucks and buses is expected to be Rs. 70 crores and Rs. 50 crores respectively for FY20.
- The imports content in home AC segment is expected to be the range of 30-35% going ahead. Currently it is at 32-34%.
- The working capital cycle is expected targeted to remain at 15 days going ahead.
- The company has set up a plant at Karsanpura which has started its operation from June and is supplying to SMG.
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- Gross debt for the quarter stood at Rs. 277 crores. The management expects to reduce the debt by Rs. 35 crores by FY20 end.
- Finance cost in Q1FY20 includes an amount of Rs. 7.08 crores being interest paid on enhanced compensation for industrial land acquired at IMT Manesar.
- Capex for FY20 reiterated from Rs. 60-70 crores to Rs.50 crores.

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

8%YoY revenue growth led by revenue earned across various segments

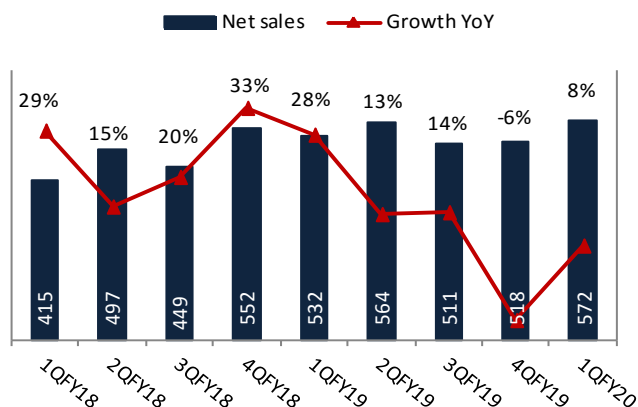


Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margin declined despite softening of commodity prices.

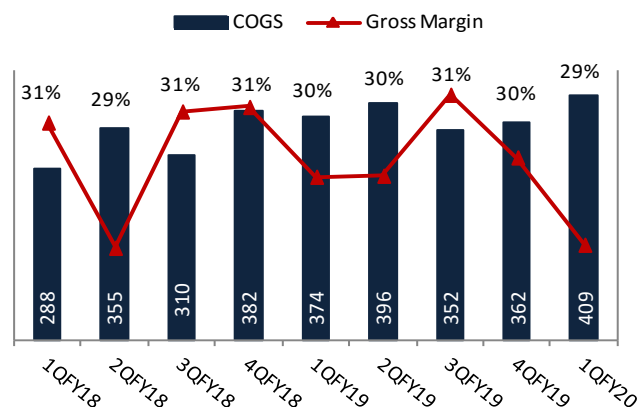


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margins declined due to change in product mix and product segment

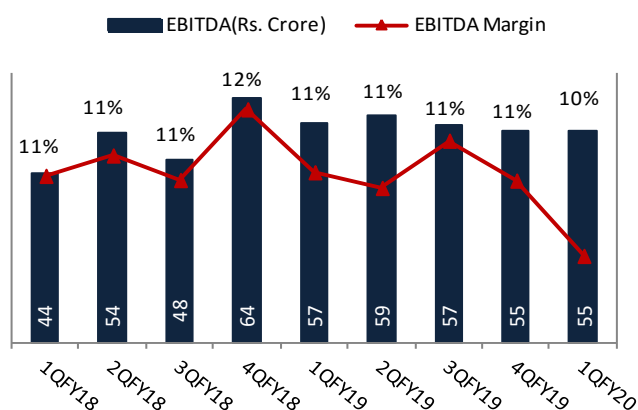


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Exceptional item gain incurred during the quarter improved PAT margins.

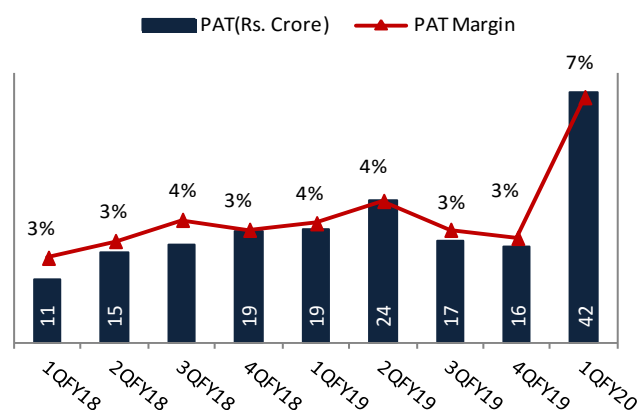


Exhibit: Segment Wise Revenue

The growth was largely driven by additional revenue of Rs.62 crores from Home AC segment.

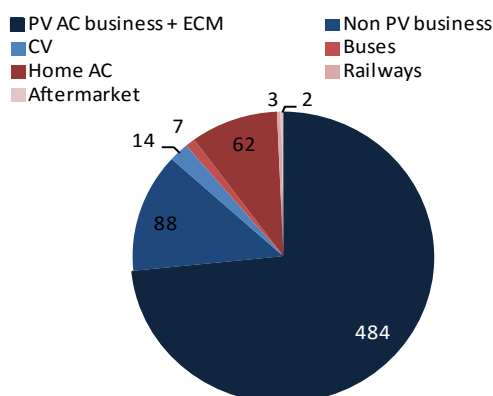
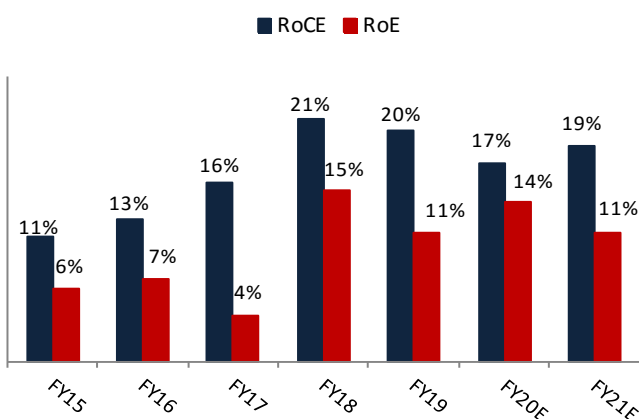


Exhibit: Return Ratios

Growth across the segments will lead to higher profitability.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	12	12	12	12	12	13	13	13
Reserves	290	305	323	337	392	667	766	848
Networth	302	317	335	349	404	680	779	861
Debt	334	333	297	329	315	188	190	120
Other Non Cur Liab	30	30	33	29	2	8	6	6
Total Capital Employed	543	531	524	507	557	737	819	881
Net Fixed Assets (incl CWIP)	587	625	617	646	760	776	751	722
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	52	47	49	60	52	46	46	46
Non Curr Assets	639	672	666	706	812	823	798	768
Inventory	178	173	177	205	240	249	262	284
Debtors	61	79	99	131	161	167	176	191
Cash & Bank	11	8	8	9	20	91	214	254
Other Curr Assets	40	42	51	98	64	50	52	54
Curr Assets	290	301	335	444	485	558	703	782
Creditors	110	110	130	178	409	390	410	445
Provisions (both)	9	9	10	5	9	14	14	15
Other Curr Liab	144	174	197	260	156	101	102	103
Curr Liabilities	263	293	336	443	575	505	526	563
Net Curr Assets	27	8	(1)	1	(90)	53	177	220
Total Assets	929	973	1,001	1,150	1,297	1,380	1,501	1,551

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,176	1,202	1,311	1,554	1,913	2,124	2,232	2,422
Change (%)	-8%	2%	9%	19%	23%	11%	5%	9%
Other Income	2	1	3	3	7	10	9	10
EBITDA	132	137	152	167	210	228	231	265
Change (%)	8%	3%	11%	10%	26%	9%	1%	15%
Margin (%)	11.2%	11.4%	11.6%	10.8%	11.0%	10.7%	10.4%	11.0%
Depr & Amor.	77	79	87	88	92	79	90	100
EBIT	55	58	66	79	118	149	141	165
Int. & other fin. Cost	37	39	42	42	41	42	27	28
EBT	20	20	26	40	84	117	123	148
Exp Item	-	-	-	31	2	3	(41)	-
Tax	(1)	0	2	(5)	22	38	56	50
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	21	20	24	14	60	76	109	97
Adjusted PAT	21	20	24	14	61	76	109	97
Change (%)	3%	-4%	20%	-42%	334%	26%	43%	-11%
Margin(%)	1.8%	1.7%	1.8%	0.9%	3.2%	3.6%	4.9%	4.0%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	6.9%	6.3%	7.1%	4.0%	15.0%	11.2%	14.0%	11.3%
ROCE	10.1%	10.9%	12.5%	15.6%	21.2%	20.2%	17.3%	18.8%
Asset Turnover	1.3	1.2	1.3	1.4	1.5	1.5	1.5	1.6
Debtor Days	19	24	28	31	31	29	29	29
Inv Days	55	53	49	48	46	43	43	43
Payable Days	34	34	36	42	78	67	67	67
Int Coverage	1.5	1.5	1.6	1.9	2.9	3.5	5.2	6.0
P/E	7.9	17.0	22.1	91.1	28.7	24.8	11.9	13.3
Price / Book Value	0.5	1.1	1.6	3.6	4.3	2.8	1.7	1.5
EV/EBITDA	3	4	5	9	9	9	6	5
FCF per Share	(2)	8	14	(4)	14	(4)	18	23

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	20	20	26	9	82	114	123	148
(inc)/Dec in Working Capital	(34)	7	3	(26)	107	(99)	(3)	(2)
Non Cash Op Exp	77	79	87	88	92	79	90	100
Int Paid (+)	37	39	42	42	41	42	27	28
Tax Paid	(5)	(4)	(6)	(2)	(14)	124	(56)	(50)
others	2	2	1	6	6	(160)	-	-
CF from Op. Activities	98	142	152	117	315	100	182	223
(inc)/Dec in FA & CWIP	(110)	(95)	(70)	(142)	(231)	(127)	(65)	(70)
Free Cashflow	(12)	48	83	(25)	84	(27)	117	153
(Pur)/Sale of Inv	-	-	-	-	-	-	-	-
others	1	1	0	66	1	2	-	-
CF from Inv. Activities	(109)	(94)	(69)	(76)	(231)	(126)	(65)	(70)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	64	6	(30)	10	(12)	(112)	2	(70)
Int. Paid	(45)	(49)	(47)	(45)	(48)	(40)	(27)	(28)
Div Paid (inc tax)	(5)	(5)	(5)	(6)	(4)	(8)	(10)	(16)
others	-	-	-	7	(8)	177	-	-
CF from Fin. Activities	14	(48)	(82)	(34)	(72)	17	(35)	(113)
Inc(Dec) in Cash	3	1	1	7	13	(8)	82	39
Add: Opening Balance	2	3	2	2	2	15	7	49
Closing Balance	5	3	3	8	15	7	89	88

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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: mkgarwal@narnolia.com, Contact No.:033-40541700.

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