

Subros Limited

Industry Auto Ancillary
Bloomberg SUBR IN
BSE CODE 517168

Overall profitability to remain under pressure in FY20

RATING	NEUTRAL
CMP	232
Price Target	249
Potential Upside	7%

Rating Change	↔
Estimate Change	↓
Target Change	↔

Stock Info

52wk Range H/L	320/164
Mkt Capital (Rs Cr)	1516
Free float (%)	34%
Avg. Vol 1M (,000)	69
No. of Shares (Cr.)	7
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

SWATI SINGH

Swati.singh@narnolia.com

2QFY20 Result Update

- ❑ SUBROS has posted a decline in revenue by 12% YoY to Rs.496 crores (vs. our estimates of Rs.524 crores) during the quarter.
- ❑ The PV and CV segment generated revenue of Rs 800 crs and Rs.50 crs respectively and ECM and Home AC segment generated revenue of Rs. 120 crs and Rs. 93 crs respectively in H1FY20.
- ❑ The new Wagon R and Brezza models are doing well. The company has also got new orders for S-Presso model from Maruti. It also got the first electric vehicle business from M&M for the quadricycle.
- ❑ Gross margin improved by 30 bps QoQ to 28.9% due to softening of commodity prices. However, EBITDA margin declined by 76 bps QoQ to 8.9% due to change in product (Home AC segment) and model mix during the quarter.
- ❑ The imports content in home AC segment is in the range of 30-35%. The management expects to reduce it by 5-7% by FY21-22.
- ❑ PAT for the quarter stood at Rs.13 crores (vs. our estimates of Rs.25 crores). PAT margins declined robustly by 463 bps QoQ to 2.7% due to higher depreciation led by drop in sales & impact of projects capitalized.
- ❑ Tax rate are expected to be in the range of 30% for FY20.
- ❑ The market share of the company in PV segment has reached 46% (increased by 4%) despite the challenging environment during this year. Truck and busses market share stands at 60%.
- ❑ Gross debt for H1FY20 stood at Rs. 188 crs. The management expects to repay Rs.39 crs debt by the end of FY20.

View and Valuation

The demand scenario for passenger vehicle space continues to be uncertain for 2HFY20. The management has also tweaked the margin guidance to 10-11% from earlier 11-12% largely due to weaker operating leverage and low margin Home AC business. Going ahead we expect higher fixed cost on new Karsanpura plant to further weigh on profitability in the current demand situation. Factoring weaker operating leverage along with margin compression and higher tax for FY20 we reduce our FY20/21e EPS estimate by 23%/ 3%. We value SUBROS at 15x FY21e EPS to arrive at target price of Rs.249 and maintain Neutral.

Key Risks to our rating and target

- ❑ Dependency on single largest customer (Maruti 74% of Revenue)
- ❑ Depreciation of INR (import content 30% of sales)

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1,554	1,913	2,124	2,144	2,336
EBITDA	167	210	228	204	250
EBIT	79	118	149	114	150
PAT	14	61	76	97	105
EPS (Rs)	2	10	12	15	16
EPS growth (%)	(42)	334	16	27	8
ROE (%)	4%	15%	11%	13%	12%
ROCE (%)	16%	21%	20%	14%	17%
BV	58	67	104	118	131
P/B (X)	3.6	4.3	2.8	2.0	1.8
P/E (x)	91	29	25	15	14

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2QFY20 Results

PAT below estimates

Financials	Fig in Rs Cr									
	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	564	511	518	572	496	-12%	-13%	1,913	2,124	11%
Other Income	6	(2)	2	2	7	17%	192%	7	10	40%
Total Income	570	509	520	575	503	-12%	-12%	1,920	2,135	11%
COGS	396	352	362	409	353	-11%	-14%	1,335	1,484	11%
Staff Cost	54	51	49	56	52	-3%	-6%	188	207	10%
Other Exp.	55	51	52	53	47	-14%	-11%	180	206	14%
Expenditure	505	454	463	517	452	-10%	-13%	1,703	1,896	11%
EBITDA	59	57	55	55	44	-26%	-20%	210	228	9%
Depreciation	20	20	21	22	23	13%	5%	92	79	-14%
EBIT	39	37	34	34	21	-45%	-36%	118	149	27%
Interest	13	8	7	15	9	-31%	-37%	41	42	2%
PBT	32	28	29	21	19	-40%	-11%	84	117	40%
Excpt. Item	-	-	-	(41)	-			2	3	84%
Tax	8	11	13	21	6	-27%	-72%	22	38	74%
PAT	24	17	16	42	13	-44%	-68%	61	76	26%

Concall Highlights

- The management does not see much growth in 3QFY20 and 4QFY20 but expects to maintain the current level of performance.
- Home AC segment generated revenue of Rs. 93 crores in H1FY20 and Rs 32 crs in 2QFY20. It is expected to cross Rs 100 cr by the end of FY20 with healthy order book.
- ECM business is expected to generate revenue of Rs. 230-240 crs for FY20. The capacity utilization from this business stands at 70-75%.
- Revenue contribution from trucks and buses is expected to be Rs. 48-50 crores and Rs. 35-40 crores respectively for FY20. In 2QFY20, trucks and buses contributed Rs. 17 crs and Rs 22 crs respectively.
- The company is expected to generate revenue of Rs 11-12 crs from the acquisition made with Zamil Air Conditioners for Home AC.
- The new Wagon R and Brezza model are doing well. The company has also got new orders for S-Presso model from Maruti.
- The company has got the first electric vehicle business from M&M for the quadricycle.
- Karsanpura Plant update:-
- The company has shifted the Manesar plant facility and started production at the new Karsanpura Plant in Ahmedabad, Gujarat and will supply to SMG. The production capacity will be 12 lakh units.
- The company will produce and supply automotive Air-conditioning systems and Engine Cooling Modules (ECM) from this plant and the production will ramp up as per the demand from customers.
- The management sees new business opportunities in railway coaches and metros going forward.
- The market share of the company in PV segment has reached 46% (increased by 4%) despite the challenging environment during this year. Truck and busses market share stands at 60%.
- Market share increased due to change in petrol and diesel mix. Currently the petrol and diesel mix stands at 75:25 from 60:40 in FY19.
- Margins were impacted due to change in product (Home AC segment) and model mix during the quarter. Margins are expected to be in the range of 11-12% in next 2-3 years.
- The imports content in home AC segment is in the range of 30-35%. The management expects to reduce it by 5-7% by FY21-22.
- Tax rate will be in the range of 30% by the end of FY20.
- The working capital cycle is expected targeted to remain at 15 days going ahead.
- Gross debt for H1FY20 stood at Rs. 188 crs. The management expects to repay Rs.39 crs debt by the end of FY20.
- Capex guidance for FY20 is 60-70 crs, out of which Rs 55 crs (60-65% of capex) is used for new plant construction and the rest will be used for new product development.

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

Revenue declined due to degrowth across various segments, especially PV and CV segment

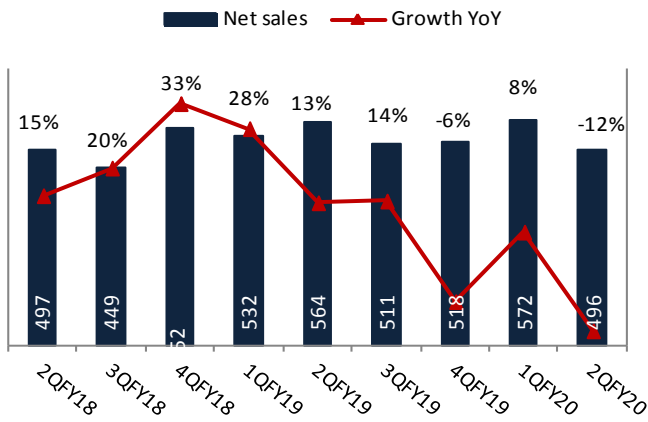


Exhibit: COGS (Rs. Crore) & Gross Margin Trend

Gross margin improved 30 bps QOQ due to softening of commodity prices

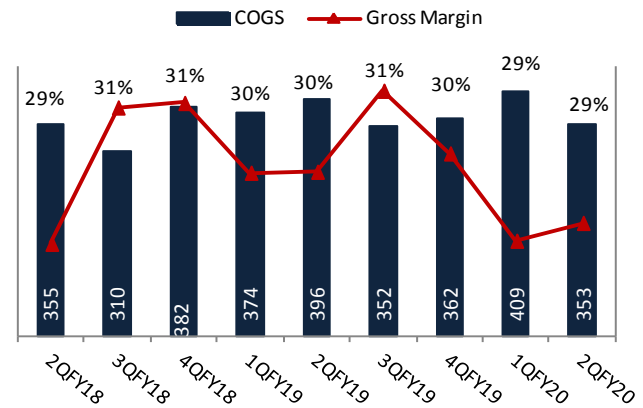


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

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

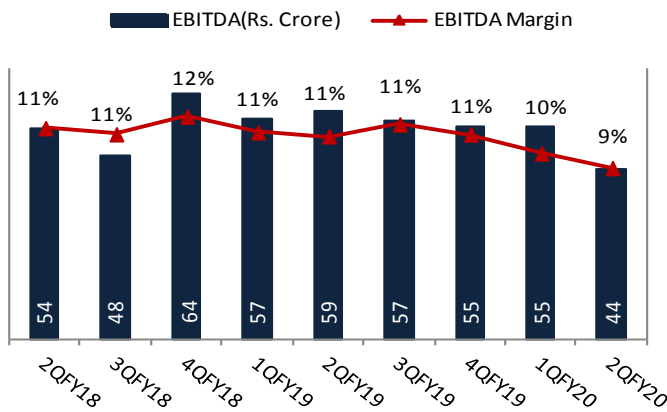


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT margins declined due to higher depreciation led by drop in sales & impact of projects capitalized

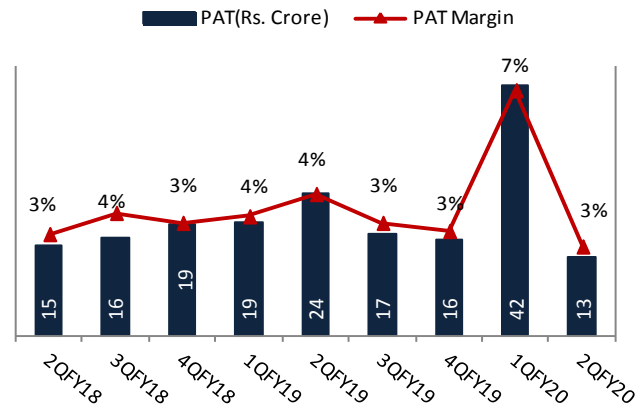


Exhibit: H1FY20 Segment Wise Revenue (Rs.crore)

Revenue earned across segments in H1FY20

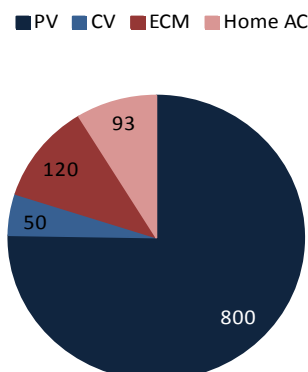
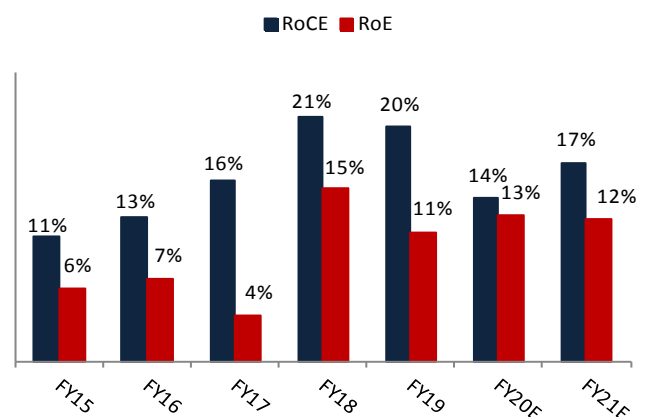


Exhibit: Return Ratios

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	754	843
Networth	302	317	335	349	404	680	767	856
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	807	876
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	252	274
Debtors	61	79	99	131	161	167	169	184
Cash & Bank	11	8	8	9	20	91	203	250
Other Curr Assets	40	42	51	98	64	50	51	53
Curr Assets	290	301	335	444	485	558	674	761
Creditors	110	110	130	178	409	390	394	429
Provisons (both)	9	9	10	5	9	14	14	15
Other Curr Liab	144	174	197	260	156	101	101	103
Curr Liabilities	263	293	336	443	575	505	509	546
Net Curr Assets	27	8	(1)	1	(90)	53	165	214
Total Assets	929	973	1,001	1,150	1,297	1,380	1,472	1,529

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	2,144	2,336
Change (%)	-8%	2%	9%	19%	23%	11%	1%	9%
Other Income	2	1	3	3	7	10	24	19
EBITDA	132	137	152	167	210	228	204	250
Change (%)	8%	3%	11%	10%	26%	9%	-11%	23%
Margin (%)	11.2%	11.4%	11.6%	10.8%	11.0%	10.7%	9.5%	10.7%
Depr & Amor.	77	79	87	88	92	79	90	100
EBIT	55	58	66	79	118	149	114	150
Int. & other fin. Cost	37	39	42	42	41	42	38	29
EBT	20	20	26	40	84	117	100	141
Exp Item	-	-	-	31	2	3	(41)	-
Tax	(1)	0	2	(5)	22	38	45	35
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	21	20	24	14	60	76	97	105
Adjusted PAT	21	20	24	14	61	76	97	105
Change (%)	3%	-4%	20%	-42%	334%	26%	27%	8%
Margin(%)	1.8%	1.7%	1.8%	0.9%	3.2%	3.6%	4.5%	4.5%

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%	12.6%	12.3%
ROCE	10.1%	10.9%	12.5%	15.6%	21.2%	20.2%	14.1%	17.2%
Asset Turnover	1.3	1.2	1.3	1.4	1.5	1.5	1.5	1.5
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	3.0	5.3
P/E	7.9	17.0	22.1	91.1	28.7	24.8	15.5	14.3
Price / Book Value	0.5	1.1	1.6	3.6	4.3	2.8	2.0	1.8
EV/EBITDA	3	4	5	9	9	9	7	6
FCF per Share	(2)	8	14	(4)	14	(4)	18	25

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	100	141
(inc)/Dec in Working Capital	(34)	7	3	(26)	107	(99)	(1)	(2)
Non Cash Op Exp	77	79	87	88	92	79	90	100
Int Paid (+)	37	39	42	42	41	42	38	29
Tax Paid	(5)	(4)	(6)	(2)	(14)	124	(45)	(35)
others	2	2	1	6	6	(160)	-	-
CF from Op. Activities	98	142	152	117	315	100	181	231
(inc)/Dec in FA & CWIP	(110)	(95)	(70)	(142)	(231)	(127)	(65)	(70)
Free Cashflow	(12)	48	83	(25)	84	(27)	116	161
(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)	(38)	(29)
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	(45)	(114)
Inc(Dec) in Cash	3	1	1	7	13	(8)	71	47
Add: Opening Balance	2	3	2	2	2	15	7	49
Closing Balance	5	3	3	8	15	7	78	96

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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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