

Industry
Bloomberg
BSE CODE

Auto Ancillary
SUBR IN
517168

Industry headwinds continue to hamper growth

RATING	NEUTRAL
CMP	255
Price Target	247
Potential Upside	-3%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	306/164
Mkt Capital (Rs Cr)	1677
Free float (%)	34%
Avg. Vol 1M (,000)	69
No. of Shares (Crs)	7
Promoters Pledged %	0%

RESEARCH ANALYST

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com
+91-22-62701235

3QFY20 Result Update

- SUBROS reported result below our estimates; revenue de-grew by 8.8% to Rs 466 crs (vs. expect. Rs 518 crs) impacted by slowdown in the automobile industry.
- PV AC business, ECM business, CV and Buses segment reported revenue of Rs 392 cr, 55 cr, 8 cr and 10 crs respectively while Home AC segment remained muted on account of shifting of plant to new facility.
- Gross margin expanded by 116 bps sequentially to 30.1%.
- EBITDA margin also expanded by 149 bps sequentially to 10.4% on account of gross margin improvement and cost optimization measures taken by company. Though, employee expenses were up by 20 bps but other declined by 52 bps leading to margin expansion.
- PAT margin improved by 23 bps to 2.9%, however on YoY basis it saw a decline of 47 bps. PAT stood at Rs 13 crs (vs. expect. Rs 18 crs), reporting a decline of 21.6% on YoY basis.
- MARUTI's revenue contribution for 9MFY20 is Rs 1030 crs (67% of total turnover of the company).
- The company has total capacity of 2 million in HVAC (Heating, Ventilation, and Air Conditioning systems) and 1.5 million in compressor's with 80% of current capacity utilization in both of them.

View and Valuation

SUBROS's business was impacted due to headwinds faced by passenger vehicle industry. However demand for new launches has been strong. Going ahead the management expect demand scenario to remain uncertain after BS-VI implementation. Considering cost optimization measures taken by company, margins are expected to be maintained at current level in spite of pricing pressure from OEMs. Taking into account the current uncertainty in demand scenario and increased expenses due to new plant we reduce our Sales and PAT estimates by 5%/4% and 12%/3% for FY20e and FY21e respectively. We value SUBROS at 16x FY21e EPS to arrive at target price of Rs.247 and maintain Neutral rating.

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	2,028	2,199
EBITDA	167	210	228	197	242
EBIT	79	118	149	107	142
PAT	14	61	76	84	98
EPS (Rs)	2	10	12	13	15
EPS growth (%)	(0)	3	0	0	0
ROE (%)	4%	15%	11%	11%	12%
ROCE (%)	16%	21%	20%	13%	17%
BV	58	67	104	116	128
P/B (X)	3.6	4.3	2.8	2.2	2.0
P/E (x)	91	29	25	20	17

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

3QFY20 Results

Numbers below estimates

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	511	518	572	496	466	-9%	-6%	1,913	2,124	11%
Other Income	(2)	2	2	7	2	-250%	-65%	7	10	40%
Total Income	509	520	575	503	468	-8%	-7%	1,920	2,135	11%
COGS	352	362	409	353	326	-7%	-8%	1,335	1,484	11%
Staff Cost	51	49	56	52	50	-3%	-4%	188	207	10%
Other Exp.	51	52	53	47	42	-17%	-11%	180	206	14%
Expenditure	454	463	517	452	417	-8%	-8%	1,703	1,896	11%
EBITDA	57	55	55	44	48	-15%	10%	210	228	9%
Depreciation	20	21	22	23	23	20%	4%	92	79	-14%
EBIT	37	34	34	21	25	-33%	15%	118	149	27%
Interest	8	7	15	9	8	-6%	-18%	41	42	2%
PBT	28	29	21	19	20	-29%	3%	84	117	40%
Excpt. Item	-	-	(41)	-	-	-	-	2	3	84%
Tax	11	13	21	6	6	-42%	5%	22	38	74%
PAT	17	16	42	13	13	-22%	2%	61	76	26%

Concall Highlights

- De-growth of automobile industry has impacted the company's performance although 3QFY20 has shown some improvement.
- Most of the OEMs liquidated their BS IV inventories and there are signs of buildup of new inventory of BS VI vehicles.
- In passenger vehicle ECM business, company's total capacity is 1.2 million and ~80% is being utilized. The company is targeting Rs 230 crs revenue from the segment.
- Home AC business is contributing ~6% to total revenue. For FY20, the company is targeting ~110crs from Home AC segment. The business is giving value addition of around 15% to the company and it is target to grow around 20% going ahead. Total investment required ~Rs 40 cr for targeting ~Rs 230 – 250 cr revenue from the segment.
- Home AC segment plant shifting to new facility is taking longer time and revenue remained nil in 3Q. However, the revenue from same is expected from March-20.
- New product development: The development activities of all the company's new program are on track. The company's progress in electric car's thermal product development is as per schedule and the company is in negotiation for bringing it in Indian market.
- MARUTI's migration to petrol vehicle to diesel vehicle will not affect SUBROS.
- MARUTI has 80% of petrol cars and high penetration of petrol vehicle is positive for SUBROS.
- The company's share of business with following OEM's is: MARUTI - 70%, M&M – 25% and TATAMOTOR – 25%, Renault Nissan – 28%.
- Margins movement would be maintained in Q4 as of now and positive improvement expected going ahead.
- BSVI transition: All models the company had with various OEMs of BSIV are being retained with BSVI.
- FY20 Capex is ~Rs 55-60 crs.
- The company's net debt is Rs 226 cr and it is targeting to bring down to Rs 210-215 cr by FY20.
- Revenue of 9MFY20 is Rs 1534 crs; breakup:
 - ECM business (Radiator) – Rs 175 crs
 - PV segment – Rs 447 crs
 - CV business – Rs 30 crs
 - Bus business – Rs 27 crs
 - Home AC business – Rs 93 crs
 - Railway business – Rs 7 crs
 - Aftermarket – Rs 10 crs.

Exhibit: Net sales and Growth Trend

Sales impacted by decline in OEM customer business and industry de-growth.

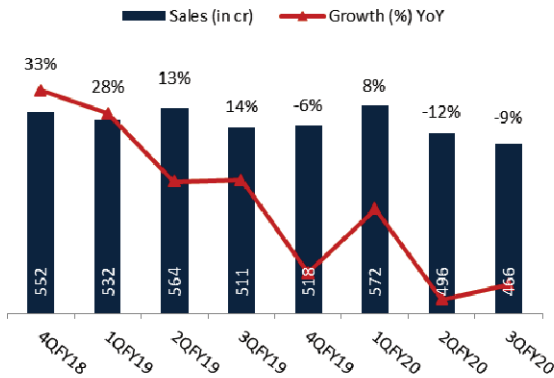


Exhibit: COGS & Gross Margin Trend

Gross margin expanded by 116 bps sequentially to 30.1%.

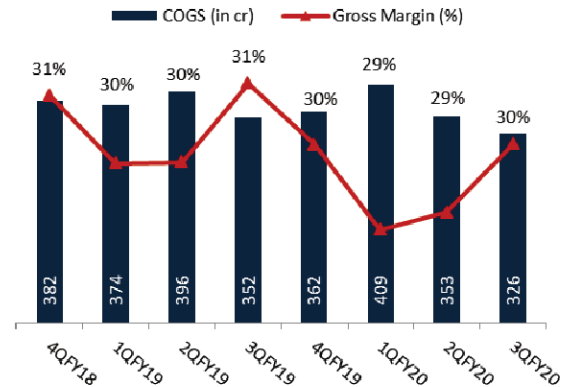


Exhibit: EBITDA and EBITDA Margin Trend

EBITDA margin was up by 149 bps QoQ on account of gross margin improvement and cost optimization measures.

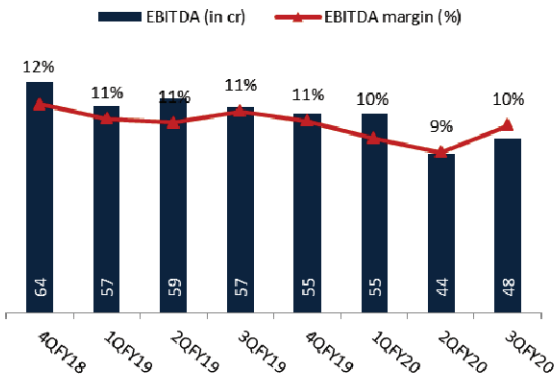


Exhibit: PAT and PAT Margin Trend

PAT stood at Rs 13 crs (vs. expect. Rs 18 crs), reporting margin improvement of 23 bps on QoQ basis to 2.9%.

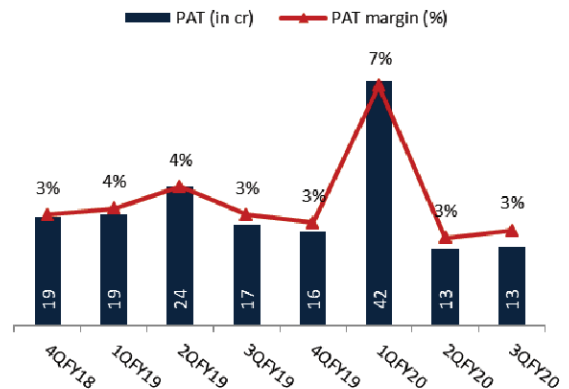


Exhibit: 3QFY20 Segment Wise Revenue

Revenue earned across segments in 3QFY20.

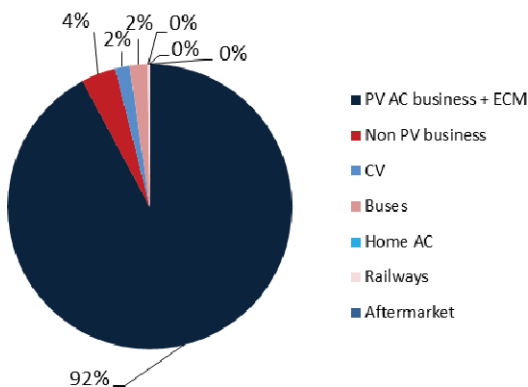
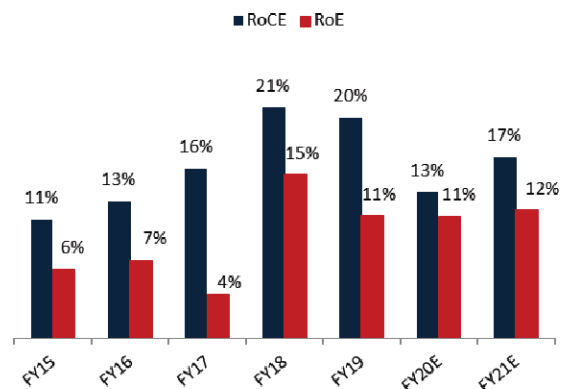


Exhibit: Return Ratios

Growth across the segments will lead to higher profitability going ahead.



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	741	824
Networth	302	317	335	349	404	680	754	837
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	794	857
Net Fixed Assets (incl CWIP)	587	625	617	646	760	776	750	721
Non Cur Investments	-	-	-	-	-	-	-	-
Other Non Cur Asst	52	47	49	60	52	46	46	46
Non Curr Assets	639	672	666	706	812	823	797	767
Inventory	178	173	177	205	240	249	228	247
Debtors	61	79	99	131	161	167	183	199
Cash & Bank	11	8	8	9	20	91	169	207
Other Curr Assets	40	42	51	98	64	50	49	51
Curr Assets	290	301	335	444	485	558	629	704
Creditors	110	110	130	178	409	390	361	392
Provisions (both)	9	9	10	5	9	14	14	14
Other Curr Liab	144	174	197	260	156	101	100	102
Curr Liabilities	263	293	336	443	575	505	475	508
Net Curr Assets	27	8	(1)	1	(90)	53	154	196
Total Assets	929	973	1,001	1,150	1,297	1,380	1,426	1,471

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	2,028	2,199
Change (%)	-8%	2%	9%	19%	23%	11%	-5%	8%
Other Income	2	1	3	3	7	10	14	18
EBITDA	132	137	152	167	210	228	197	242
Change (%)	8%	3%	11%	10%	26%	9%	-14%	23%
Margin (%)	11.2%	11.4%	11.6%	10.8%	11.0%	10.7%	9.7%	11.0%
Depr & Amor.	77	79	87	88	92	79	91	100
EBIT	55	58	66	79	118	149	107	142
Int. & other fin. Cost	37	39	42	42	41	42	38	29
EBT	20	20	26	40	84	117	83	131
Exp Item	-	-	-	31	2	3	(41)	-
Tax	(1)	0	2	(5)	22	38	40	33
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	21	20	24	14	60	76	84	98
Adjusted PAT	21	20	24	14	61	76	84	98
Change (%)	3%	-4%	20%	-42%	334%	26%	11%	16%
Margin(%)	1.8%	1.7%	1.8%	0.9%	3.2%	3.6%	4.2%	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%	11.2%	11.7%
ROCE	10.1%	10.9%	12.5%	15.6%	21.2%	20.2%	13.4%	16.6%
Asset Turnover	1.3	1.2	1.3	1.4	1.5	1.5	1.4	1.5
Debtor Days	19	24	28	31	31	29	33	33
Inv Days	55	53	49	48	46	43	41	41
Payable Days	34	34	36	42	78	67	65	65
Int Coverage	1.5	1.5	1.6	1.9	2.9	3.5	2.8	5.0
P/E	7.9	17.0	22.1	91.1	28.7	24.8	19.8	17.0
Price / Book Value	0.5	1.1	1.6	3.6	4.3	2.8	2.2	2.0
EV/EBITDA	3	4	5	9	9	9	8	6
FCF per Share	(2)	8	14	(4)	14	(4)	19	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	83	131
(inc)/Dec in Working Capital	(34)	7	3	(26)	107	(99)	(25)	(4)
Non Cash Op Exp	77	79	87	88	92	79	91	100
Int Paid (+)	37	39	42	42	41	42	38	29
Tax Paid	(5)	(4)	(6)	(2)	(14)	124	(40)	(33)
others	2	2	1	6	6	(160)	41	-
CF from Op. Activities	98	142	152	117	315	100	188	222
(inc)/Dec in FA & CWIP	(110)	(95)	(70)	(142)	(231)	(127)	(65)	(70)
Free Cashflow	(12)	48	83	(25)	84	(27)	123	152
(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)	78	38
Add: Opening Balance	2	3	2	2	2	15	91	169
Closing Balance	5	3	3	8	15	7	169	207

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVelox Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.