

Accumulate

On the Right direction

- Subros reported better than expected numbers in a Covid impacted quarter. Revenue de-grew 27% QoQ to Rs. 4.8bn mainly impacted by disruption in OEMs sales due to lockdown restriction and weak revenue from Home AC segment.
- EBITDA de-grew by 58% QoQ to Rs. 268mn with 410bps QoQ contraction in margin to 5.6% due to higher Employee cost and negative operating leverage.
- The management indicated that outlook is improving with sharp recovery in PVs volume from June-21 onwards and guided a double digit revenue growth in FY22. However, uncertainty to remain high in near term due to shortage of Semiconductors.
- To capture the strong volume growth of the PV segment in the medium to long term, Subros is looking to increase capacity by 0.5mn in compressors to 2mn units and HVAC 2.5-2.75mn from 2mn currently.
- Home AC sales remain weak at Rs. 280mn in Q1Y22 due to high RM cost (As it is a low margin business, so not being able to absorb the costs). We expect the Home AC segment will also display significant growth due to the government's effort to boost localisation. Current capacity for Home AC segment is 250-300k units and peak revenue may reach to Rs.2-2.5bn in next two years.
- The company is focused on deleveraging its balance sheet, Gross debt stood at Rs. 370mn during Q1FY22 (vs 330mn at the end of Q4FY21) and will continue to maintain zero short term working capital debt for FY22.
- Given the strong demand for PVs volume, sharp revival in CV segment from 2HFY22, strong revenue growth from new business verticals (especially from Home AC and railway) and reduction in interest cost, **We estimate Subros to report a PAT CAGR of 55% over FY21-FY23E. We Recommend Accumulate with target price Rs 379 (based on 22x23E EPS).**

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	4,805	738	551.3	6,599	(27.2)
Total Expense	4,537	1,036	337.8	5,961	(23.9)
EBITDA	268	(299)	(189.7)	639	(58.0)
Depreciation	239	193	23.6	242	(1.5)
EBIT	29	(492)	(106.0)	397	(92.6)
Other Income	48	10	363.5	21	134.0
Interest	28	48	(42.0)	26	6.9
EBT	50	(529)	(109.4)	391	(87.3)
Tax	19	(289)	(106.4)	135	(86.3)
RPAT	31	(240)	(112.9)	256	(87.8)
APAT	31	(240)	(112.9)	256	(87.8)
			(bps)		(bps)
Gross Margin (%)	27.0	30.8	(372)	26.0	101
EBITDA Margin (%)	5.6	(40.5)	4605	9.7	(410)
NPM (%)	0.6	(32.6)	3322	3.9	(323)
Tax Rate (%)	37.4	54.6	(1718)	34.6	282
EBIT Margin (%)	0.6	(66.6)	6725	6.0	(540)

CMP	Rs 324
Target / Upside	Rs 379 / 17%
NIFTY	16,295
Scrip Details	
Equity / FV	Rs 131mn / Rs 2
Market Cap	Rs 21bn
	USD 285mn
52-week High/Low	Rs 365 / 181
Avg. Volume (no)	1,11,717
Bloom Code	SUBR IN
Price Performance	
	1M 3M 12M
Absolute (%)	4 7 79
Rel to NIFTY (%)	1 (5) 34

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	36.8	36.8	36.8
MF/Banks/FIs	18.9	18.9	10.9
FIs	33.9	33.7	0.6
Public / Others	10.5	10.6	51.7

Valuation (x)

	FY21A	FY22E	FY23E
P/E	45.2	31.1	18.8
EV/EBITDA	13.2	10.5	7.2
ROE (%)	6.0	8.2	12.5
RoACE (%)	7.3	9.0	12.6

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	17,957	21,883	25,069
EBITDA	1,538	1,926	2,582
PAT	467	679	1,123
EPS (Rs.)	7.2	10.4	17.2

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Ride on PVs recovery

Although shortage of semiconductor is an overhang for production in near term, we expect PVs dispatched continue to be strong for medium term led by 1) strong traction for personal mobility 2) low inventory at dealer level (15-20 days), 3) easing of supplying chain issue; 3) better financing availability and 4) credit support to dealers. Subros is the leader in the Indian auto air-conditioning market with a 43% market share in the automotive PV AC segment. Subros is catering to close to 75% of the total AC requirement of MSIL. We expect MSIL (accounts for 75-80% of subros revenue) to outperform its peers due to better availability of semiconductors and high demand for mileage and CNG cars.

Home AC (RAC) – Medium to long term growth driver

Recently the government banned imports of AC's with refrigerants. The move is aimed at promoting domestic manufacturing while reducing imports. We believe this provides an additional opportunity for outsourced manufacturing and subros will also be a key beneficiary. The company has entered into the home AC business through the acquisition of assets of Zamil which enables them to supply components to air conditioner manufacturers including Voltas Havells, Haier and other small players. The home AC business potentially represents an incremental revenue opportunity of Rs 2.5-3bn in the next 2-3 years (driven by rising localization, increasing demand from online players. The company is also looking to participate in PLI scheme, any capex in this segment would provide long term revenue visibility.

Exhibit 1: Actual vs estimated performance

(Rs.mn)	Actual	Estimated	% Variance	Comments
Revenue	4,805	4,060	18	
EBITDA	268	223	20	
EBITDA margin (%)	5.58	5.50	8 bps	
PAT	31	(5)	NA	

Source: Company, DART

Exhibit 2: Change in Estimates

(Rs Mn)	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	21,883	22,257	(1.7)	25,069	25,350	(1.1)
EBITDA	1,926	2,048	(6.0)	2,582	2,611	(1.1)
EBITDA Margin (%)	8.80	9.20	(40 bps)	10.30	10.30	-
PAT	679	786	(13.5)	1,123	1,150	(2.4)
EPS (Rs)	10.4	12.0	(13.5)	17.2	17.6	(2.4)

Source: Company, DART

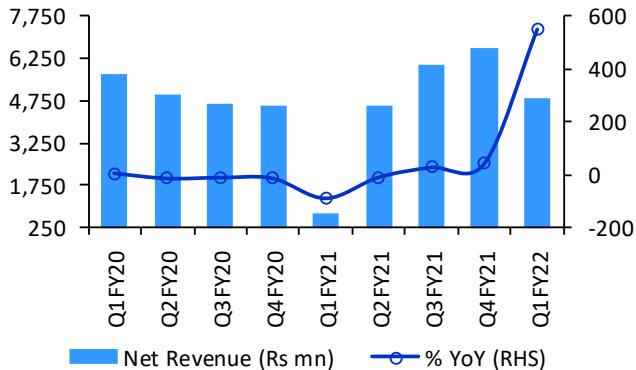
Exhibit 3: Assumption Sheet

Segment Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E
Revenue from AC Supply in PV	15,949	17,705	15,544	13,757	16,674	18,356
Revenue from other new Verticals	3,130	3,490	4,241	4,200	5,210	6,713
CV & buses	680	1,000	800	720	972	1,264
Radiator	2,200	2,370	2,391	2,450	2,818	3,099
Home AC	50	40	930	880	1,200	2,000
Trans. refrigeration	50	30	100	100	120	150
Railways	150	50	20	50	100	200
Other Operating income	50	50	143	-	-	-
Total	19,129	21,245	19,928	17,957	21,883	25,069

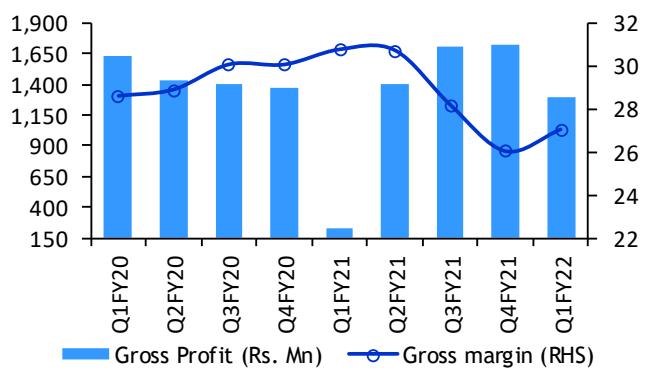
Source: Company, DART

Conference Call Highlight

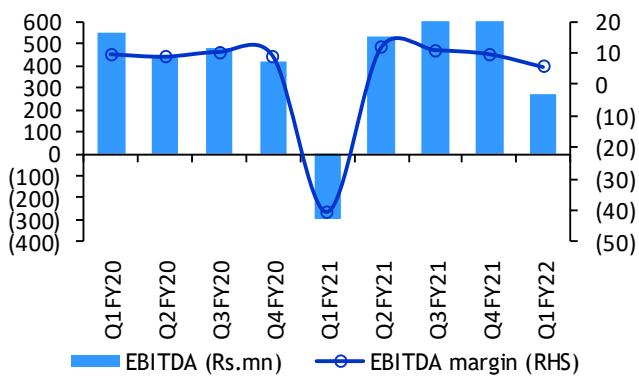
- The company is observing good recovery in 2Q, business outlook is improving, expecting double digit growth in FY22. However, uncertainty to be remain high due to shortage of Semiconductor. The company is watchful of each month of performance.
- Revenue breakup for Q1FY22 –PV Rs. 4.29bn (89% of total revenues including Radiator Rs. 670mn,) and Non-car Rs, 510mn (11% of total revenues in Q1FY22). Expect 15-20% growth for radiator business in FY22.
- Home AC sales stood at Rs. 280mn in Q1Y22. Company targets revenue of Rs.1-1.2bn but may be dependent on company's ability to pass on RM costs given the low margin business will not be able to absorb the costs.
- Despite RM inflation, gross margin remained broadly flat QoQ due to passing RM inflation of previous quarter. The company would be able to pass on RM impact of 1Q with a quarter lag to all its clients.
- Market share for overall PV segment is 42%, Utility segment is 55% and Truck segment is 45%.
- MSIL contributed 82% of total sales in Q1FY22.
- Company secured orders worth Rs. 4bn in the last 6 months which will be realized from FY23.
- Company total net debt stood at Rs. 370mn (vs 330mn at the end of Q4FY21) during Q1FY22 and will continue to have zero short term working capital debt for this year.
- For FY22 capex would be around Rs.1 to 1.2bn. Company plans to utilize 60% of Capex towards capacity expansion and the remaining towards operational activities.
- The company will continue to operate under 30% Tax regime until the utilization of the full MAT credit and will make a shift to the 22% tax regime thereafter.

Exhibit 4: Revenue contracted 27% QoQ


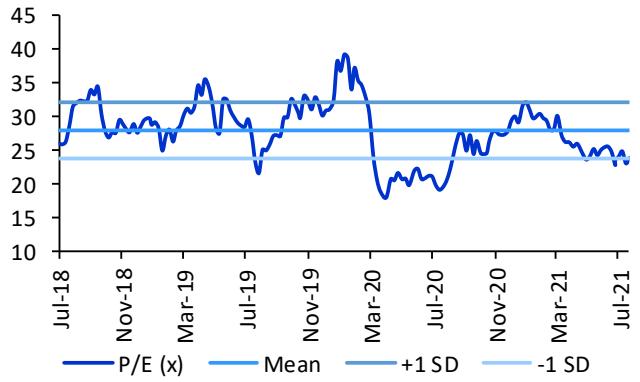
Source: Company, DART

Exhibit 5: Gross margin improved QoQ


Source: Company, DART

Exhibit 6: EBITDA margin contracted QoQ


Source: Company, DART

Exhibit 7: 1 year fwd P/E Band


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	19,928	17,957	21,883	25,069
Total Expense	18,038	16,419	19,958	22,487
COGS	14,088	13,036	15,844	17,924
Employees Cost	2,073	1,875	2,145	2,306
Other expenses	1,877	1,508	1,969	2,256
EBIDTA	1,890	1,538	1,926	2,582
Depreciation	903	921	974	1,038
EBIT	987	617	952	1,544
Interest	363	163	106	71
Other Income	200	103	125	130
Exc. / E.O. items	413	0	0	0
EBT	1,237	557	970	1,604
Tax	391	90	291	481
RPAT	846	467	679	1,123
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,259	467	679	1,123

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	131	131	131	131
Minority Interest	0	0	0	0
Reserves & Surplus	7,392	7,817	8,398	9,358
Net Worth	7,523	7,947	8,529	9,488
Total Debt	1,214	329	279	229
Net Deferred Tax Liability	164	177	181	185
Total Capital Employed	8,900	8,454	8,989	9,901

Applications of Funds

Net Block	7,435	7,246	6,972	6,735
CWIP	660	536	809	809
Investments	18	48	25	25
Current Assets, Loans & Advances	5,773	6,660	7,432	9,614
Inventories	2,343	2,814	2,698	2,953
Receivables	1,893	2,043	2,158	2,473
Cash and Bank Balances	909	1,192	1,176	2,745
Loans and Advances	94	87	504	504
Other Current Assets	535	525	896	938
Less: Current Liabilities & Provisions	4,985	6,036	6,250	7,282
Payables	3,852	5,147	4,648	5,237
Other Current Liabilities	1,133	889	1,602	2,045
<i>sub total</i>				
Net Current Assets	788	624	1,182	2,332
Total Assets	8,900	8,454	8,989	9,901

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	29.3	27.4	27.6	28.5
EBIDTA Margin	9.5	8.6	8.8	10.3
EBIT Margin	5.0	3.4	4.4	6.2
Tax rate	31.6	16.2	30.0	30.0
Net Profit Margin	4.2	2.6	3.1	4.5
(B) As Percentage of Net Sales (%)				
COGS	70.7	72.6	72.4	71.5
Employee	10.4	10.4	9.8	9.2
Other	9.4	8.4	9.0	9.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.0	0.0	0.0
Interest Coverage	2.7	3.8	8.9	21.9
Inventory days	43	57	45	43
Debtors days	35	42	36	36
Average Cost of Debt	23.5	21.1	35.0	27.8
Payable days	71	105	78	76
Working Capital days	14	13	20	34
FA T/O	2.7	2.5	3.1	3.7
(D) Measures of Investment				
AEPS (Rs)	19.3	7.2	10.4	17.2
CEPS (Rs)	33.1	21.3	25.3	33.1
DPS (Rs)	0.8	0.7	1.5	2.5
Dividend Payout (%)	4.1	9.8	14.4	14.5
BVPS (Rs)	115.3	121.8	130.7	145.5
RoANW (%)	17.6	6.0	8.2	12.5
RoACE (%)	9.1	7.3	9.0	12.6
RoAIC (%)	12.5	8.1	12.6	20.6
(E) Valuation Ratios				
CMP (Rs)	324	324	324	324
P/E	16.8	45.2	31.1	18.8
Mcap (Rs Mn)	21,125	21,125	21,125	21,125
MCap/ Sales	1.1	1.2	1.0	0.8
EV	21,429	20,262	20,228	18,608
EV/Sales	1.1	1.1	0.9	0.7
EV/EBITDA	11.3	13.2	10.5	7.2
P/BV	2.8	2.7	2.5	2.2
Dividend Yield (%)	0.2	0.2	0.5	0.8
(F) Growth Rate (%)				
Revenue	(6.2)	(9.9)	21.9	14.6
EBITDA	(17.1)	(18.7)	25.2	34.1
EBIT	(33.8)	(37.6)	54.4	62.2
PBT	8.5	(54.9)	74.2	65.3
APAT	58.4	(62.9)	45.5	65.3
EPS	58.4	(62.9)	45.5	65.3

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	2,388	2,083	1,210	2,689
CFI	(928)	(584)	(950)	(800)
CFF	(1,450)	(1,217)	(276)	(320)
FCFF	1,406	1,474	237	1,889
Opening Cash	899	909	1,191	1,176
Closing Cash	909	1,191	1,176	2,745

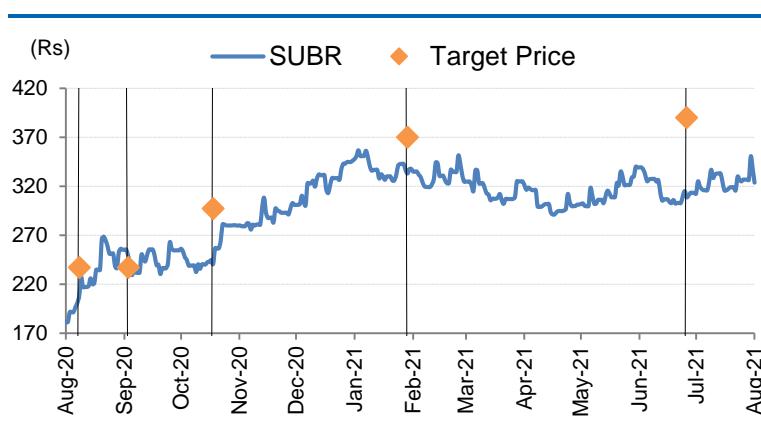
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-20	Accumulate	237	208
Sep-20	Accumulate	237	248
Oct-20	Buy	297	241
Feb-21	Accumulate	370	333
Jun-21	BUY	390	309

*Price as on recommendation date

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