



THINK DIFFERENT PROFIT MORE

Company Name	: Subros
BSE Code	: 517168
Time Duration	: 2 year
CMP	: ₹345 (as on 06 September, 2018)
Target Price	: ₹485

Our Upstream Pick for the month of September is Subros Limited. The Suri family owns 40% stake, while Denso Corporation and Suzuki Motor Corporation hold 13% each. It manufactures thermal products for automotive applications, in technical collaboration with Denso Corporation, having 40% share of the Indian passenger vehicle heating, ventilation and air conditioning (HVAC) market. It caters to all automotive segments of passenger vehicles, buses, trucks, refrigeration transport, off-roaders and railways. It has manufacturing plants in Noida, Manesar, Pune, Chennai and Sanand. The company's revenue mix consists of Maruti Suzuki is 60-65% and between 30-35% from Mahindra and Tata Motors.

We see this company as our Upstream Pick as a turnaround in its financials was seen during FY18. The strong growth in AC sales in passenger vehicles segment and incremental revenue from truck and bus AC and radiator segments led to robust growth in FY18. Also, it bagged order for the supply of compressors for Suzuki's Baleno and Swift models, which boosted its topline.

Supply of blowers for trucks – next growth driver

The Ministry of Road Transport and Highways had issued a notification that came into force from January 1, 2018, which mandated the introduction of blowers in truck applications for N2 (3.5-12-tonne) and N3 (above 12-tonne) category of trucks. Accordingly, majority of truck manufacturing companies like Ashok Leyland, Isuzu, Swaraj Mazda, Mahindra Truck, etc. have opted for blower applications in trucks, while few have chosen air conditioning fitment as an optional accessory. Subros has commenced the supply through its existing Chennai and Pune plants, which together have production capacity of 300,000 units annually. The company has already garnered more than 70% market share from this business. The company is expecting 8-10% growth from the blowers segment, which will generate additional revenue of Rs 150-175 crore over the next two years.

New plant in Gujarat to supply exclusively to Maruti Suzuki

Subros already had a plant at Sanand, Gujarat, for supplying air conditioning systems for Tata Nano. The plant has an installed capacity of 250,000 units per annum, but about 30,000 units were supplied for Nano and the balance for Maruti Suzuki. However, since the production of Tata Nano has ceased, Subros is planning to set up new exclusive plant for supplying exclusively to Maruti Suzuki. The total production capacity of the plant would be 500,000 units on an annual basis. It would further ramp up the capacity to 14,00,000 units by FY23. The estimated cost for the project is Rs 130 crore, which would be incurred over the next three years. Thus, this plant has the capability of generating incremental revenue of Rs 300-400 crore.

Maruti Suzuki – key growth contributor

Maruti Suzuki India Ltd. is the largest passenger vehicle manufacturer in India having more than 50% market share. The company's 70% requirements of ACs is supplied by Subros. From FY16, Subros started supplying ACs to diesel variants too, which led to the increased share of business with Maruti Suzuki. In FY18, the sale of passenger vehicles grew by ~14% YoY and exports grew by ~2%. The volume growth for the year was 13.4%. This growth also reflected in the financials and overall growth of Subros in FY18. The passenger vehicle industry is expected to grow at CAGR of ~8% over FY18-20 on back of good monsoons and development in rural areas due to agriculture growth.

Growth in railways & reefers segments

The company forayed into the railway segment confined to only driver cabin AC and reefers segment in 2014. Recently, it has bagged two major trail orders from the tier-I suppliers of Indian Railways, which would lead to robust growth in the segment. Now, it plans

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to foray in metro AC coach segment and tap 10% market share in the segment. The company targets to achieve considerable market share in the railways segment. It is also expecting some market share from reefers segment as the set up of multinational retail chains will trigger the demand for refrigerated trucks and other containers.

Foray in bus AC and home AC segments

Subros is diversifying by foraying into the bus and home AC segments. It is supplying for the Traveller AC buses of Force Motors. It is optimistic about getting business from the state transport undertakings, which will lead the segment to grow by 22-25% p.a over the next 3-4 years. It entered the home AC segment in 2017 with Whirlpool as its main consumer. With more tie-ups with OEM service providers such as Haier, Voltas, etc., the company expects to gain 20% market share in the segment till 2021. These two segments would also contribute in generating incremental revenue for the company.

Capex and debt plans

The company is spending capex of Rs 130 crore on the greenfield expansion at Sanand plant for supplying to Suzuki. This capex would be spread over the next three years. Also, it is likely to spend Rs 50-60 crore in FY19 and FY20 for product development and maintenance purposes. It has planned to raise funds through issue of shares on a preferential basis to Denso Corporation which will be used to pay off debt and technology upgradation. For FY18, the debt-equity ratio stood at 1:1, which it aims to bring down to 0.5x by FY20.

Financial Performance

Over the last three years, the company's revenue and net profit has grown at a CAGR of 17.3% and 44.7% respectively. In FY18, its revenue grew by 13% YoY to Rs 1969.56 cr. from Rs 1741.2 cr. Its EBITDA grew by 25.2% YoY to Rs 209.9 cr from Rs 167.76 cr. The PAT jumped exceptionally by 355% from Rs 13.3 cr to Rs 60.6 cr. Its receivable days are 27 and payable days are 67. The debt-equity ratio in FY18 stood at 0.95x.

In Q1FY19, the company's PV segment grew by 25% in volume terms, whereas the CV and bus segments grew by 76% and 44%, respectively. Its EBITDA was up by 28.7% YoY and the margins stood flat due to high commodity prices and currency fluctuations. The PAT grew strongly by 79.9% YoY to Rs 18.9 cr from Rs 10.5 cr., while PAT margin stood at 3.5%.

Valuation

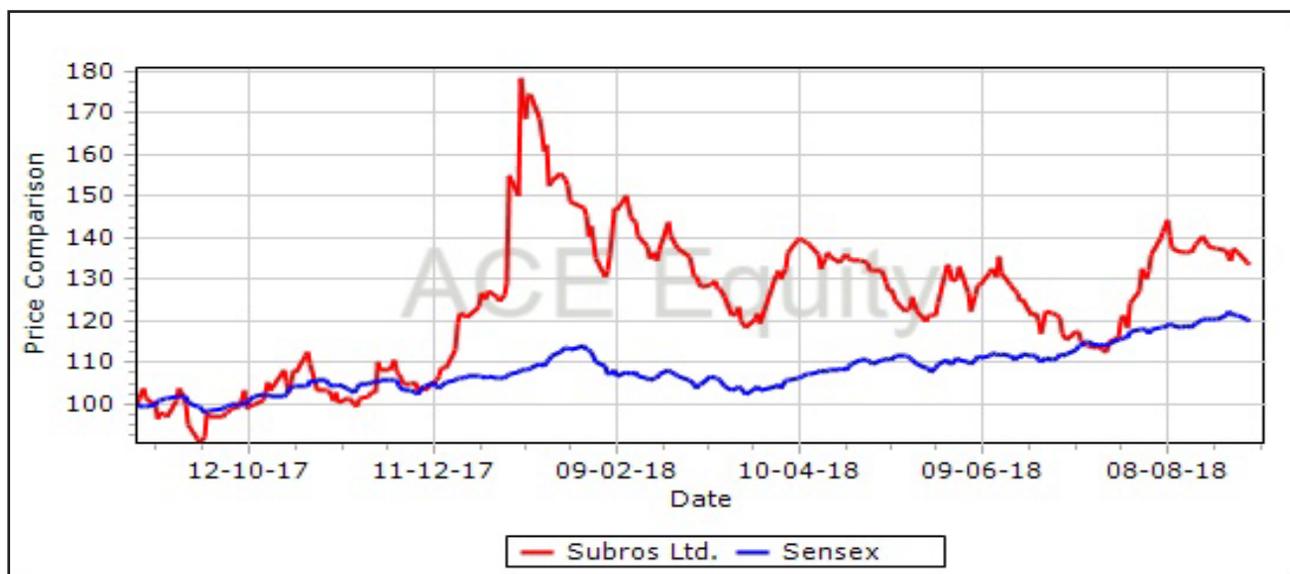
The company is trading at TTM P/E of 28.2x with TTM EPS of Rs 11.51. For FY18, it delivered ROE and ROCE of 16.1% and 16.03%, respectively. The capacity expansion in Gujarat for supply to Maruti Suzuki would trigger its topline from FY20 onwards. The blowers for trucks, radiators to Maruti, driver cabins and AC coaches in railways, supply of home AC condensers to Whirlpool would be revenue drivers for the company over the next 2-3 years. The PV segment will continue to be the main contributor for the company, but the CV segment is also set to derive incremental revenue for the company. We see a potential upside of 40% with target price of Rs 485 over a period of two years. We urge investors to make investment in three tranches.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	1912.89	1534.92	1306.90	1197.15	1171.06
Total Income	1920.32	1542.19	1309.33	1198.19	1173.28
Total Expenditure	1702.91	1367.15	1154.80	1060.38	1039.65
PBIDT	217.41	175.04	154.52	137.81	133.63
PAT	60.62	13.34	24.00	20.32	20.26
Dividend %	55.00	25.00	40.00	35.00	35.00
Adj. EPS(Rs)	10.11	2.22	4.00	3.39	3.38

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	531.69	552.15	-3.71	471.49	12.77
Total Expenditure	474.70	488.46	-2.82	427.22	11.11
PBIDT (Excl OI)	56.99	63.69	-10.52	44.27	28.73
PAT	18.93	18.59	1.83	10.52	79.94
PBIDTM% (Excl OI)	10.72	11.53	-7.03	9.39	14.16
PBIDTM%	11.49	11.46	0.26	9.51	20.82
PATM%	3.56	3.37	5.64	2.23	59.64
Adj. EPS(Rs)	3.16	3.10	1.94	1.75	80.57



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