

Subros

Performance Highlights

Y/E March (₹ cr)	4QFY11	4QFY10	% chg (yoy)	3QFY11	% chg (qoq)
Net sales	303.7	249.4	21.7	273.3	11.1
EBITDA	27.0	26.2	3.4	20.3	33.3
EBITDA margin (%)	8.9	10.5	(158)bp	7.4	148bp
Reported PAT	11.0	9.0	21.5	5.5	98.6

Source: Company, Angel Research

Subros reported healthy performance for 4QFY2011, backed by volume growth following strong OE volumes, increased average realisation and tax-benefits on account of higher R&D spends. **Owing to better growth visibility in the segment and reasonable valuations, we upgrade our recommendation on the stock to Accumulate from Neutral.**

Net sales up 21.7% yoy; profitability up 21.5% yoy: Subros reported 21.7% yoy and 11.1% qoq growth in net sales to ₹303.7cr, driven by 17.2% yoy and 9.7% qoq growth in volumes following strong OE sales. Average net realisation grew by 3.9% yoy during the quarter. Operating margin registered a 158bp yoy contraction to 8.9%, on account of a 134bp and 136bp yoy increase in raw-material cost and other expenditure, respectively. However, operating margin expanded by 148bp qoq as the company commenced local production of evaporators as an import substitute, which helped in reducing raw-material cost marginally as compared to 3QFY2011. Net profit posted a 21.5% yoy and 98.6% qoq increase to ₹11cr mainly due to lower tax outgo. Tax rate during the quarter declined on account of tax benefits that the company enjoyed on R&D spends.

Outlook and valuation: We estimate Subros' volumes to post a ~13% CAGR over FY2011–13E, considering the increasing requirements of its OE customers such as Maruti and Tata Motors and potential new client orders in the PV and CV segments. However, we expect realisation to remain stable due to the aggressive pricing adopted by OEMs. At ₹35, the stock is trading at reasonable valuations of 8x FY2012E and 7x FY2013E earnings. **We recommend Accumulate on the stock with a target price of ₹40, valuing it at 8x FY2013E earnings.**

Key financials

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net sales	905	1,089	1,263	1,416
% chg	30.4	20.3	16.0	12.1
Net profit	28.1	28.5	26.5	30.1
% chg	109.5	1.4	(7.1)	13.6
OPM (%)	10.3	8.0	7.8	7.7
EPS (₹)	4.7	4.7	4.4	5.0
P/E (x)	7.5	7.4	8.0	7.0
P/BV (x)	1.0	0.9	0.8	0.8
RoE (%)	14.4	12.8	10.8	11.4
RoCE (%)	15.5	11.3	10.3	11.0
EV/Sales (x)	0.4	0.3	0.3	0.3
EV/EBITDA (x)	3.8	4.4	4.2	3.8

Source: Company, Angel Research

ACCUMULATE

CMP	₹35
Target Price	₹40

Investment Period	12 months
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	211
Beta	0.8
52 Week High / Low	56/30
Avg. Daily Volume	54,574
Face Value (₹)	2
BSE Sensex	18,998
Nifty	5,701
Reuters Code	SUBR.BO
Bloomberg Code	SUBR@IN

Shareholding Pattern (%)	
Promoters	40.0
MF / Banks / Indian Fls	9.3
FII / NRIs / OCBs	26.9
Indian Public / Others	23.8

Abs. (%)	3m	1yr	3yr
Sensex	5.0	8.2	7.9
Subros	(7.1)	(26.2)	(9.7)

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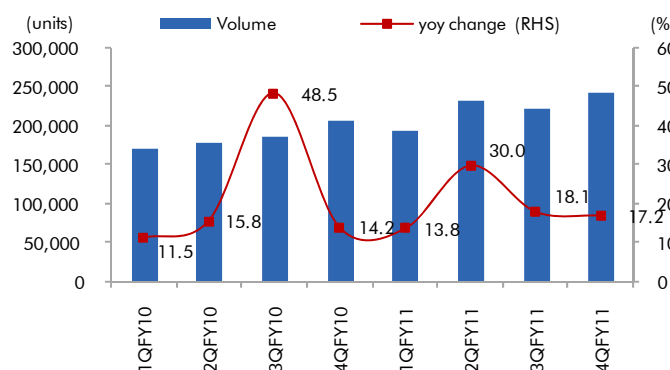
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Exhibit 1: Quarterly performance

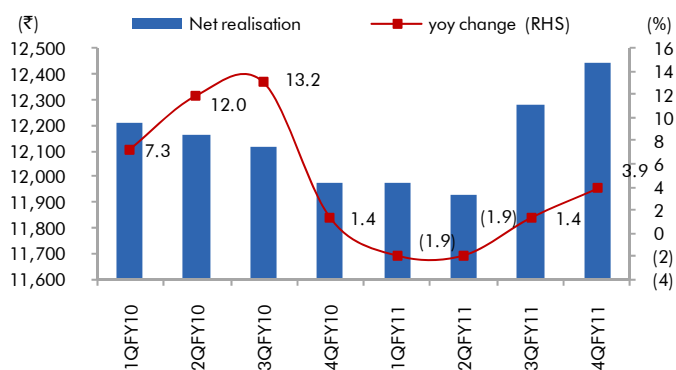
Y/E March (₹ cr)	4QFY11	4QFY10	% chg	FY2011	FY2010	% chg
Net Sales	303.7	249.4	21.7	1,089	906	20.3
Consumption of RM	226.8	183.0	24.0	822.5	671.9	22.4
(% of Sales)	74.7	73.3	133.6	75.5	74.2	
Staff Costs	15.9	15.8	0.4	64.1	53.8	19.1
(% of Sales)	5.2	6.3		5.9	5.9	
Other Expenses	34.0	24.5	38.6	115.3	86.9	32.6
(% of Sales)	11.2	9.8		10.6	9.6	
Total Expenditure	276.6	223.3	23.9	1,002	813	23.3
EBITDA	27.0	26.2	3.4	87.2	92.8	(6.1)
EBITDA margin (%)	8.9	10.5		8.0	10.3	
Interest	5.4	3.4	57.7	17.5	16.0	9.0
Depreciation	10.8	9.8	10.2	40.6	38.5	5.6
Other Income	0.8	0.3	196.2	2.1	1.2	73.7
PBT (excl. Extr. Items)	10.8	12.9	(16.2)	29.1	38.3	(24.0)
Extr. Income/(Expense)	-	-	-	-	-	-
PBT (incl. Extr. Items)	11.6	13.1	(12.0)	31.2	39.5	(21.1)
(% of Sales)	3.8	5.3		2.9	4.4	
Provision for Taxation	0.6	4.1	(85.4)	2.7	11.4	(76.4)
(% of PBT)	5.6	32.0		9.2	29.8	
Reported PAT	11.0	9.0	21.5	28.5	28.1	1.4
PATM (%)	3.6	3.6		2.6	3.1	
Equity shares (cr)	12.0	12.0		12.0	12.0	
EPS (₹)	1.8	1.5	21.5	4.7	4.7	1.4

Source: Company, Angel Research

Net sales up 21.7% on 17.2% yoy volume growth: For 4QFY2011, Subros reported a 21.7% yoy and 11.1% qoq jump in net sales to ₹303.7cr. Growth was primarily driven by 17.2% yoy and 9.7% qoq growth in volumes, with the company selling 243,974 AC units in 4QFY2011. Average net realisation increased by 3.9% yoy and 1.3% qoq during the quarter.

Exhibit 2: Volumes up 17.2% yoy


Source: Company, Angel Research

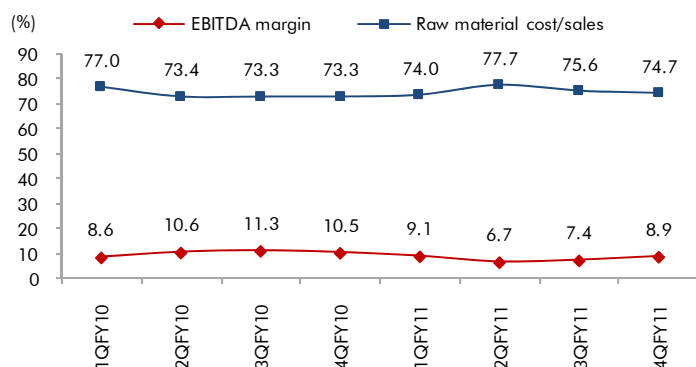
Exhibit 3: Realisation up by 3.9% yoy


Source: Company, Angel Research

Margin contracts by 158bp yoy on input cost pressures: For 4QFY2011, Subros registered a 158bp yoy contraction in EBITDA margin, largely on account of a 134bp yoy increase in raw-material costs, which as a percentage of sales stood at 74.68%. Further, increased other expenditure (up 136bp yoy) also negatively affected the company's margin. As a result, operating profit reported 3.4% yoy growth to ₹27cr.

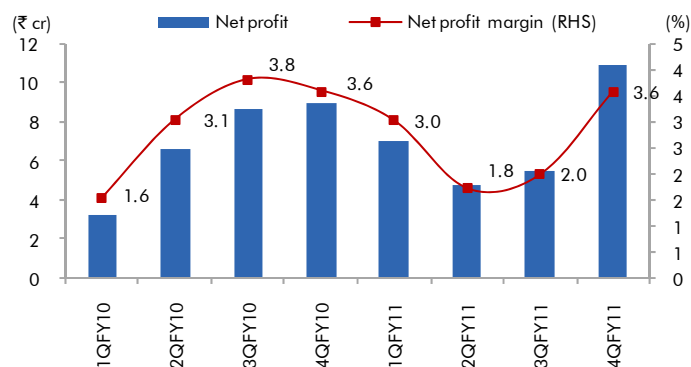
Noticeably, the company's operating margin improved on a qoq basis by 148bp mainly due to the 88bp qoq decrease in raw-material cost, leading to a 33.3% qoq increase in operating profit. This can be attributed to the commencement of local production of evaporators as an import substitute during the quarter, which resulted in cost reduction to a certain extent.

Exhibit 4: EBITDA margin at 8.9%



Source: Company, Angel Research

Exhibit 5: Profitability trend



Source: Company, Angel Research

Net profit up 21.5% yoy: Net profit posted a 21.5% yoy and 98.6% qoq increase to ₹11cr mainly due to lower tax outgo. The tax rate declined on account of tax benefits that the company enjoyed on R&D spends. Going ahead, management expects the tax rate to remain low as the company would continue to enjoy benefits on R&D expenditure.

Investment arguments

- Improved PV volumes to boost growth:** We estimate the PV segment to post a healthy ~12% CAGR over FY2011–13E. Given the company's dependence on the PV segment, we expect it to gain from India's small car growth story. The company's volumes would also get a push due to the continuous capacity ramp-up by new and existing players. Accordingly, we expect Subros to register a ~13% volume CAGR over FY2011–13E.
- Maintaining leadership position and expanding product base:** A market leader and the largest player in the domestic car AC market, Subros enjoys more than 40% market share. The company has managed to garner a high market share on the back of its strong technological expertise backed by Denso and Suzuki. Further, in view of growing PV volumes, the company has increased its capacity to 1.2mn units per year (FY2011) and proposes to expand its capacity to 1.5mn units per year in the first phase (FY2012E) and further to about 2mn units per year in the next two–three years. Capacity expansion will enable Subros to assure volume to its OE customers and capture increased demand.

Subros is also setting up a new facility in Chennai to meet the increasing OEM demand in the domestic market. As per management, the new plant is being set up to cater to auto manufacturers in Chennai. The company will also be investing about ₹100cr in the next two years to expand the production capacities of its existing three facilities in Noida, Manesar and Pune.

Management also proposes to foray into the CV segment, targeting leaders such as Ashok Leyland and Eicher, to expand the company's product base and explore new avenues.

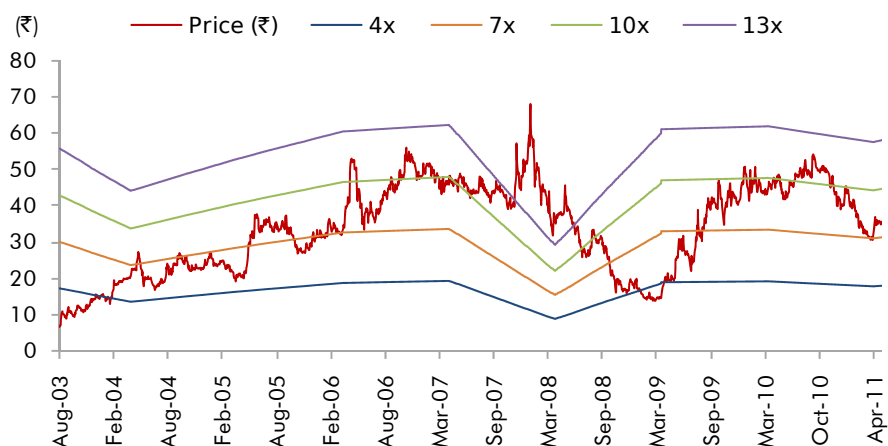
Outlook and valuation

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Exhibit 6: Key assumptions

Volumes (units)	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY2013E
AC system – Auto	506,016	618,750	747,707	895,072	1,033,808	1,147,527
Yoy change (%)	8.2	22.3	20.8	19.7	15.5	11.0

Source: Company, Angel Research

Exhibit 7: One-year forward P/E band


Source: Company, Bloomberg, Angel Research

Exhibit 8: Auto Ancillary – Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY10-13E EPS
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	CAGR (%)
Amara Raja	Buy	188	234	24.3	8.4	8.0	4.9	4.3	25.1	21.5	6.2
Automotive Axle [^]	Accumulate	429	488	13.8	13.4	12.3	7.0	6.2	22.0	19.9	76.0
Bharat Forge* &	Buy	348	421	20.9	17.2	14.9	9.8	8.2	21.7	21.1	-
Bosch India [#]	Neutral	6,623	-	-	21.7	19.2	12.4	10.6	19.9	19.2	22.3
Exide Industries	Accumulate	154	164	6.9	18.5	16.1	11.0	9.3	23.5	22.5	14.7
FAG Bearings [#]	Neutral	1,143	-	-	13.6	12.5	7.3	6.4	21.9	19.8	32.5
Motherson Sumi*	Neutral	224	-	-	20.2	16.5	9.4	8.2	30.9	30.1	29.5
Subros	Accumulate	35	40	14.2	8.0	7.0	4.2	3.8	10.8	11.4	2.3

Source: Company, Angel Research; Note: * Consolidated results; # December year end; ^ September year end; & FY2011E and FY2012E EPS adjusted for FCCB interest after tax

Profit and loss statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Gross sales	774	787	984	1,203	1,403	1,573
Less: Excise duty	111	92	78	114	140	157
Net Sales	663	694	905	1,089	1,263	1,416
Total operating income	663	694	905	1,089	1,263	1,416
% chg	2.4	4.8	30.4	20.3	16.0	12.1
Total Expenditure	579	631	813	1,002	1,164	1,307
Net Raw Materials	455	516	672	823	955	1,073
Other Mfg costs	33	31	38	51	59	66
Personnel	46	44	54	64	76	85
Other	45	39	48	65	74	83
EBITDA	83	63	93	87	99	109
% chg	12.4	(24.2)	46.9	(6.1)	13.4	10.1
(% of Net Sales)	12.6	9.1	10.3	8.0	7.8	7.7
Depreciation & Amortisation	33	32	38	41	50	54
EBIT	51	32	54	47	49	55
% chg	9.0	(37.8)	72.0	(14.3)	5.3	12.7
(% of Net Sales)	7.7	4.6	6.0	4.3	3.9	3.9
Interest & other Charges	11	15	16	17	20	20
Other Income	1	2	1	2	2	2
(% of PBT)	2.8	8.5	3.0	6.6	7.2	6.6
Recurring PBT	41	19	40	31	31	38
% chg	2.8	(54.8)	112.6	(21.1)	(0.1)	20.7
Extraordinary Items	-	-	-	-	-	-
PBT	41	18	40	31	31	38
Tax	12	5	11	3	5	8
(% of PBT)	30.4	28.3	28.9	8.6	15.0	20.0
PAT	29	13	28	28	26	30
Adj. PAT	29	13	28	28	26	30
% chg	2.9	(53.2)	109.5	1.4	(7.1)	13.6
(% of Net Sales)	4.3	1.9	3.1	2.6	2.1	2.1
Basic EPS (₹)	4.8	2.2	4.7	4.7	4.4	5.0
Fully Diluted EPS (₹)	4.8	2.2	4.7	4.7	4.4	5.0
% chg	2.9	(53.2)	109.5	1.4	(7.1)	13.6

Balance sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
SOURCES OF FUNDS						
Equity Share Capital	12	12	12	12	12	12
Reserves & Surplus	162	172	195	226	242	260
Shareholders' Funds	174	184	207	238	254	272
Total Loans	111	135	154	204	224	224
Deferred Tax Liability	8	12	11	14	14	14
Total Liabilities	293	331	372	456	492	510
APPLICATION OF FUNDS						
Gross Block	363	436	483	582	665	715
Less: Acc. Depreciation	194	218	256	297	347	400
Net Block	169	219	227	286	318	315
Capital Work-in-Progress	40	38	69	58	53	57
Goodwill	-	-	-	-	-	-
Investments	-	-	-	1	1	1
Current Assets	151	182	193	257	289	321
Cash	8	11	13	29	18	16
Loans & Advances	25	29	35	44	51	57
Other	118	141	146	185	221	248
Current liabilities	67	109	117	146	169	184
Net Current Assets	84	73	76	111	120	137
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	293	331	372	456	492	510

Cash flow statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	41	18	40	31	31	38
Depreciation	33	32	38	41	50	54
Change in Working Capital	(12)	(20)	(4)	11	13	13
Less: Other income	(35)	(56)	(16)	3	17	19
Direct taxes paid	12	5	11	3	5	8
Cash Flow from Operations	85	81	78	77	72	78
(Inc.)/Dec. in Fixed Assets	49	72	77	89	77	54
(Inc.)/Dec. in Investments	-	-	-	-	-	-
(Inc.)/Dec. in loans and adv.	-	(1)	1	(0)	-	-
Other income	(5)	(8)	-	-	-	-
Cash Flow from Investing	(59)	(87)	(78)	(89)	(77)	(54)
Issue of Equity	-	-	0	-	-	-
Inc./(Dec.) in loans	(15)	24	19	50	20	-
Dividend Paid (Incl. Tax)	6	6	4	5	5	5
Others	-	(0)	(0)	-	-	-
Cash Flow from Financing	(21)	18	16	45	15	(5)
Inc./(Dec.) in Cash	(0)	4	2	16	(11)	(2)
Opening Cash balance	8	7	11	13	29	18
Closing Cash balance	7	11	13	29	18	16

Key ratios

Y/E March	FY08	FY09	FY10	FY11 E	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	7.4	15.7	7.5	7.4	8.0	7.0
P/CEPS	3.4	4.7	3.2	3.0	2.8	2.5
P/BV	1.2	1.1	1.0	0.9	0.8	0.8
Dividend yield (%)	2.3	1.4	2.0	2.0	2.0	5.0
EV/Sales	0.4	0.4	0.4	0.3	0.3	0.3
EV/EBITDA	3.8	5.3	3.8	4.4	4.2	3.8
EV / Total Assets	1.1	1.0	0.9	0.8	0.8	0.8
Per Share Data (₹)						
EPS (Basic)	4.8	2.2	4.7	4.7	4.4	5.0
EPS (fully diluted)	4.8	2.2	4.7	4.7	4.4	5.0
Cash EPS	10.2	7.5	11.1	11.5	12.7	13.9
DPS	0.8	0.5	0.7	0.7	0.7	1.8
Book Value	29.0	30.7	34.5	39.6	42.4	45.3
DuPont Analysis						
EBIT margin	7.7	4.6	6.0	4.3	3.9	3.9
Tax retention ratio	0.7	0.7	0.7	0.9	0.9	0.8
Asset turnover (x)	2.4	2.3	2.7	2.8	2.8	2.9
RoIC (Post-tax)	12.6	7.5	11.4	10.8	9.3	9.1
Cost of Debt (Post Tax)	6.4	8.5	7.9	8.9	8.0	7.2
Leverage (x)	0.7	0.6	0.7	0.7	0.8	0.8
Operating RoE	16.8	6.9	13.7	12.2	10.2	10.7
Returns (%)						
RoCE (Pre-tax)	17.6	10.1	15.5	11.3	10.3	11.0
Angel RoIC (Pre-tax)	17.8	9.9	15.1	10.9	10.3	11.2
RoE	17.6	7.5	14.4	12.8	10.8	11.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.7	2.0	2.0	2.0	2.1
Inventory / Sales (days)	53	47	37	44	46	46
Receivables (days)	15	21	21	18	18	18
Payables (days)	31	42	43	42	44	44
WC cycle (ex-cash) (days)	46	36	25	24	27	29
Solvency ratios (x)						
Net debt to equity	0.6	0.7	0.7	0.7	0.8	0.8
Net debt to EBITDA	1.2	2.0	1.5	2.0	2.1	1.9
Interest Coverage (EBIT/Interest)	4.7	2.2	3.4	2.7	2.4	2.7

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1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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