



ACCUMULATE

Price	Rs19
Target Price	Rs20
Investment Period	12 months

Stock Info

Sector	Auto Ancillary
Market Cap (Rs cr)	114
Beta	0.5
52 WK High / Low	48/14
Avg Daily Volume	12953
Face Value (Rs)	2

BSE Sensex	12,135
Nifty	3,646

BSE Code	517168
NSE Code	SUBROS
Reuters Code	SUBR.BO
Bloomberg Code	SUBR@IN

Shareholding Pattern (%)

Promoters	40.0
MF/Banks/Indian FIs	14.6
FII/ NRIs/ OCBs	26.9
Indian Public	18.5

Abs.	3m	1yr	3yr
Sensex (%)	31.9	(31.1)	(1.7)
Subros (%)	30.1	(50.5)	(63.1)

Vaishali Jajoo

Tel: 022 – 4040 3800 Ext: 344
e-mail: vaishali.jajoo@angeltrade.com

Performance Highlights

- Net Sales above expectation:** For 4QFY2009, Subros clocked 14.7% jump in Net Sales to Rs215.4cr (Rs187.8cr), which was much above our expectation of Rs150cr. However, average Realisations fell 9.6% yoy. Subros sold around 1,82,310 AC units (including 54,383 heater ventilator ACs) in 4QFY2009 as against 1,43,717 units sold in 4QFY2008. On a qoq basis too, Volumes improved by 43.8%. Robust performance of *A-Star* and *Xylo* also supported the company's Volume growth during the quarter. The company's Bottom-line however, dipped by a substantial 91.2% yoy to Rs0.8cr (Rs8.9cr), which was below our expectation of Rs1.3cr. Net Profit fell largely due to the 589bp yoy decline in OPM.
- Margin declines on high Raw Material costs:** During 4QFY2009, Subros witnessed a 589bp yoy decline in EBITDA Margins owing to higher Raw Material costs. In 4QFY2009, Raw Material costs (as a % of Sales) stood at 80.6% (68.8%). Imported Raw Materials contributed almost half the Total Raw Material requirement of the company. During the quarter, high volatility in currency (especially Rupee and Yen) resulted in imported Raw Material adversely impacting OPM. However, the company's constant efforts to switch to indigenous Raw Materials to an extent mitigated the impact. The company expects the situation to normalise in 1HFY2010 and intends to improve its OPM in sequential quarters.
- Net Profit down 91.2%:** Net Profit for 4QFY2009 plunged 91.2% to Rs0.8cr (Rs8.9cr) as Net Profit Margins fell by 436bp. Further, Interest costs also increased by 61.7% to Rs4.9cr adding to the reduction in Net Profit. Interest costs increased due to the rise in Working Capital requirements. The 8.2% increase in Depreciation to Rs9.9cr (Rs9.2cr) also impacted NPM in 4QFY8009.
- Business Overview:** As the market leader and largest player operating in the domestic car AC market, Subros enjoys more than 40% marketshare. Subros has cornered such high marketshare due to strong technological backing from Denso and Suzuki. Subros has the opportunity to deliver low-cost components with the market veering towards producing low-cost high-quality automobiles. For the same, the company has ramped up capacity to 7,50,000 units per annum and plans to further expand capacities to one million units per annum.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2010E
Net Sales	662.7	694.7	791.8	854.4
% chg	2.4	4.8	14.0	7.9
Net Profit	28.7	13.2	19.6	25.8
% chg	3.0	(54.0)	48.9	31.5
OPM (%)	12.8	9.3	9.8	10.4
EPS (Rs)	4.8	2.2	3.3	4.3
P/E (x)	4.0	8.7	5.8	4.4
RoE (%)	16.5	7.2	10.0	12.0
RoCE (%)	17.7	10.3	13.4	15.5
P/BV (x)	0.7	0.6	0.6	0.5
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	2.6	3.7	3.0	2.6

Source: Company, Angel Research

Key Highlights

- FY2009 Financial Performance:** For FY2009 the company recorded 4.8% yoy to Rs694.7cr, aided by around 22% yoy increase in volumes. Average realisations however, declined by 17% yoy largely owing to the change in product mix. Subros reported 54% yoy decline in Net Profit to Rs13.2cr (Rs28.7cr) largely due to the 350bp yoy rise in Raw Material cost. Imported Raw Materials contributed almost half of the company's total raw material requirement. During the year, high volatility in currency (especially Rupee and Yen) resulted in imported Raw Material adversely impacting OPM. Further, high Interest cost of Rs14.6cr (Rs10.9cr) impacted the company's FY2009 Bottom-line.
- Currently, Subros has a narrow base in terms of clients (Maruti, M&M and TML), segments (OEM) and markets in which it operates (domestic), and the type of automobiles it caters to (passenger vehicles, PV). Despite these factors, Subros enjoys market leadership position with more than 40% marketshare. Going ahead, diversification would be the key for the company to increase its marketshare. Further, it is also one of the suppliers for Maruti's *A-Star* and Mahindra's *Xylo*.
- Subros is also entering the commercial vehicles (CV) market by supplying cabin ACs for higher tonnage trucks to players such as Ashok Leyland, Eicher and Volvo. This will help in diversification and improve its Margins. However, Volumes are unlikely to be significant and for the time being the company's fortunes will still be tied to that of its major clients.

Outlook and Valuation

We have conservatively estimated the company's Volumes to post a CAGR of around 15% over the next two years, considering the increasing requirements of its OEM customers like Maruti, Tata Motors and potential new client wins from the PV and CV segments. However, though volumes are expected show positive growth going ahead, we expect realisations to be stable or decline marginally due to the aggressive pricing adopted by the OEMs. We maintain our Earnings estimates at Rs3.3 for FY2010E and Rs4.2 for FY2011E. However, there exists an upside risk to our estimates, if the company delivers better performance at the Operating front in the coming quarters.

At the CMP, the stock is trading at 5.8x FY2010E and 4.4x FY2011E Earnings. On the bourses, owing to the recent run-up in the stock price, we advise investors to Accumulate the stock at lower levels keeping in mind the company prospects beyond FY2010E. **Thus, we recommend an Accumulate the stock, with a Target Price of Rs20.**

Exhibit 1: 4QFY2009 Performance

Y/E Mar (Rs cr)	4QFY2009	4QFY2008	% chg	FY2009	FY2008	% chg
Net Sales	215.4	187.8	14.7	694.7	662.7	4.8
Other Income	0.7	0.3	151.7	1.7	1.2	43.5
Total Income	216.2	188.0	15.0	696.4	663.9	4.9
EBITDA	15.3	24.4	(37.2)	63.1	83.4	(24.4)
OPM (%)	7.1	13.0		9.1	12.6	
Interest	4.9	3.0	61.7	14.6	10.9	34.1
Depreciation	9.9	9.2	8.2	31.6	32.5	(2.8)
Profit Before Tax	1.3	12.5	(89.9)	18.5	41.1	(55.0)
Tax	0.5	3.7		5.4	12.5	
Profit After Tax	0.8	8.9	(91.2)	13.2	28.7	(54.0)
EPS (Rs)	0.1	1.5		2.2	4.8	

Source: Company, Angel Research


Research Team: Tel: 4040 3800
E-mail: research@angeltrade.com
Website: www.angeltrade.com

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