

Subros

Performance Highlights

Y/E March (₹ cr)	2QFY12	2QFY11	% chg (yoy)	1QFY12	% chg (qoq)
Net sales	240.5	278.2	(13.6)	252.2	(4.6)
EBITDA	18.9	18.7	1.3	25.0	(24.1)
EBITDA margin (%)	7.9	6.7	116bp	9.9	(202)bp
Reported PAT	3.1	4.9	(35.9)	8.0	(61.0)

Source: Company, Angel Research

Subros reported poor performance for 2QFY2012 on account of lower volumes and higher interest cost. The company's volumes declined during the quarter, led by slowdown in the domestic passenger vehicle industry. We have revised our volume estimates downwards to factor in the sluggish demand scenario for passenger vehicles in 2HFY2012 due to high interest rates and rising fuel prices.

We recommend a Neutral rating on the stock.

Performance impacted by lower volumes and higher interest expense: For 2QFY2012, net sales registered a 13.6% yoy (4.6% qoq) decline to ₹240.5cr, largely due to the 24% yoy (9.8% qoq) decline in volumes. Volumes declined due to general slowdown in the passenger car industry and slowdown in volumes of its major clients, Maruti Suzuki and Tata Motors. Average net realization, however, grew by 13.8% yoy (5.7% qoq), arresting the further top-line decline. Operating margin witnessed an expansion of 116bp yoy to 7.9%, led by a 716bp yoy fall in raw-material expenses. On the other hand, a 279bp and 322bp yoy increase in other expenditure and staff cost restricted further yoy margin expansion. Sequentially, operating margin contracted by 202bp yoy because of the sharp increase in staff cost. Net profit registered a substantial decline of 35.9% yoy (61% qoq) to ₹3.1cr mainly due to the 44.2% yoy increase in interest expense.

Outlook and valuation: We estimate Subros to register a decline in its volume in FY2012E, led by slowdown in the passenger vehicle industry. Further, higher interest expense on account of increasing debt levels will negatively affect the company's bottom line. At ₹27, the stock is trading at 8.2x FY2012E and 6.6x FY2013E earnings. We recommend a Neutral rating on the stock.

Key financials

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	905	1,089	1,016	1,166
% chg	30.4	20.3	(6.7)	14.7
Net profit	28.1	28.5	19.7	24.4
% chg	109.5	1.6	(31.0)	24.0
OPM (%)	10.3	8.1	8.7	8.5
EPS (₹)	4.7	4.9	3.3	4.1
P/E (x)	5.8	5.5	8.2	6.6
P/BV (x)	0.8	0.7	0.7	0.7
RoE (%)	14.4	13.1	8.3	10.0
RoCE (%)	15.5	11.4	8.9	9.1
EV/Sales (x)	0.3	0.3	0.4	0.3
EV/EBITDA (x)	3.3	4.1	4.7	4.0

Source: Company, Angel Research

NEUTRAL

CMP	₹27
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	162
Beta	0.5
52 Week High / Low	51/26
Avg. Daily Volume	10,514
Face Value (₹)	2
BSE Sensex	17,705
Nifty	5,327
Reuters Code	SUBR.BO
Bloomberg Code	SUBR@IN

Shareholding Pattern (%)	
Promoters	40.0
MF / Banks / Indian Fls	9.0
FII / NRIs / OCBs	27.5
Indian Public / Others	23.5

Abs. (%)	3m	1yr	3yr
Sensex	(2.7)	(11.6)	80.9
Subros	(18.7)	(45.0)	35.0

Yaresh Kothari

022-39357800 Ext: 6844

yareshb.kothari@angelbroking.com

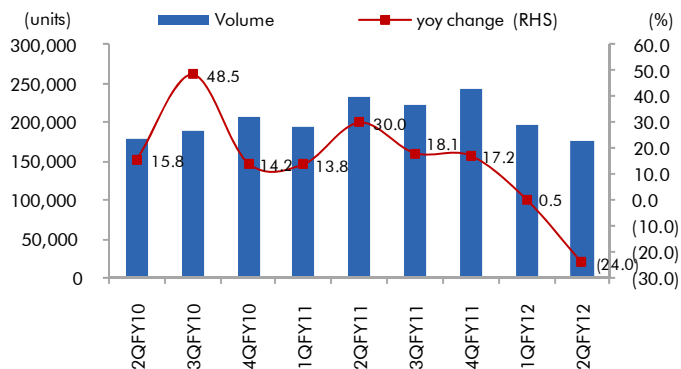
Exhibit 1: Quarterly performance

Y/E March (₹ cr)	2QFY12	2QFY11	% chg	1HFY12	1HFY11	% chg
Net Sales	240.5	278.2	(13.6)	492.7	512.2	(3.8)
Consumption of RM	169.7	216.2	(21.5)	346.3	389.2	(11.0)
(% of Sales)	70.5	77.7		70.3	76.0	
Staff Costs	21.2	15.6	36.0	40.0	31.0	29.1
(% of Sales)	8.8	5.6		8.1	6.1	
Other Expenses	30.7	27.7	10.6	62.5	52.1	20.0
(% of Sales)	12.8	10.0		12.7	10.2	
Total Expenditure	221.6	259.5	(14.6)	448.8	472.3	(5.0)
EBITDA	18.9	18.7	1.3	43.9	39.9	10.1
EBITDA margin (%)	7.9	6.7		8.9	7.8	
Interest	6.2	4.3	44.2	12.2	8.0	52.2
Depreciation	10.9	10.2	7.5	21.4	19.7	9.1
Other Income	0.5	0.5	-	1.6	0.8	101.3
PBT (excl. Extr. Items)	1.8	4.2	(57.5)	10.2	12.2	(16.2)
Extr. Income/(Expense)	-	-	-	-	-	-
PBT (incl. Extr. Items)	2.3	4.7	(51.2)	11.8	13.0	(9.0)
(% of Sales)	1.0	1.7		2.4	2.5	
Provision for Taxation	(0.8)	(0.1)	478.6	0.7	1.0	(31.6)
(% of PBT)	(45.3)	(3.3)		6.6	8.0	
Reported PAT	3.1	4.9	(35.9)	11.1	12.0	(7.2)
PATM (%)	1.3	1.8		2.3	2.3	
Equity shares (cr)	12.0	12.0		12.0	12.0	
EPS (₹)	0.5	0.8	(35.9)	1.9	2.0	(7.2)

Source: Company, Angel Research

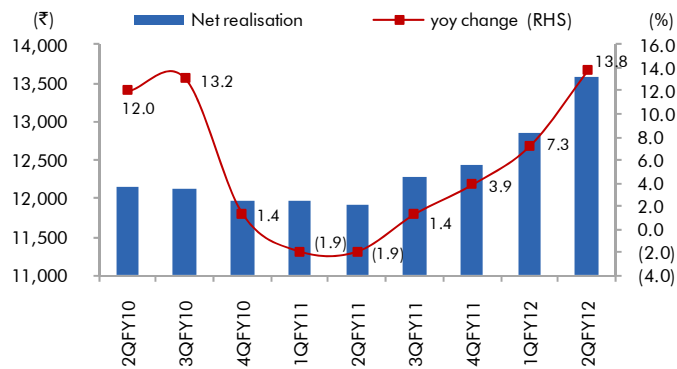
Net sales decline by 13.6% yoy, led by a 24% yoy decline in volumes: For 2QFY2012, the company's top line registered a 13.6% yoy (4.6% qoq) decline to ₹240.5cr, largely due to a 24% yoy (9.8% qoq) decline in volumes. Lower volumes can be attributed to the general slowdown in the passenger car industry and slowdown in volumes of its major clients, Maruti Suzuki and Tata Motors. Average net realization during the quarter, however, grew by 13.8% yoy (5.7% qoq), arresting the further decline in the company's top line.

Exhibit 2: Volumes decline by 24% yoy



Source: Company, Angel Research

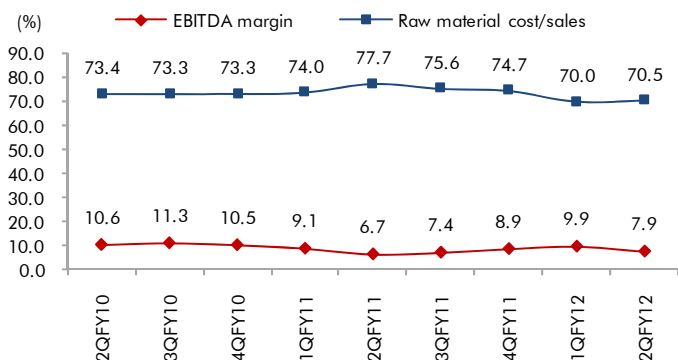
Exhibit 3: Realization improves by 13.8% yoy



Source: Company, Angel Research

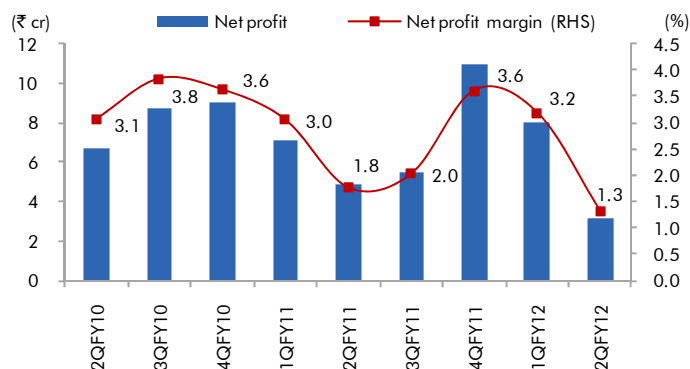
Operating margin at 7.9%: Operating margin expanded by 116bp yoy to 7.9%, led by a 716bp yoy fall in raw-material expenses. On the other hand, a 279bp and 322bp yoy increase in other expenditure and staff cost restricted further yoy margin expansion. Sequentially, operating margin contracted by 202bp yoy due to the sharp increase in staff cost. Subros has been successful in managing its raw-material expenses as it has commenced local production of evaporators (which were earlier imported). As a result, the company's operating profit posted marginal 1.3% yoy growth (down substantial by 24.1% qoq) to ₹18.9cr.

Exhibit 4: EBITDA margin trend



Source: Company, Angel Research

Exhibit 5: Net profit down 35.9% yoy



Source: Company, Angel Research

Net profit declines by 35.9% yoy on higher interest cost: The company's net profit registered a steep 35.9% yoy (61% qoq) decline to ₹3.1cr, largely due to lower top line and higher interest cost. During the quarter, interest cost increased by 44.2% yoy to ₹6.2cr.

Investment arguments

- Volume growth to remain subdued due to slowdown in the passenger vehicle industry:** The passenger vehicles (PV) segment is witnessing a slowdown in volume growth, as consumer sentiment remains weak due to macroeconomic concerns such as rising interest rates, high inflation and fuel price hikes. As a result, we estimate the PV segment to post a moderate volume CAGR of 8-10% over FY2011-13E. Given the company's dependence on the PV segment, we expect volume growth to remain under pressure.
- Maintain leadership position on 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, Subros 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, thus, maintain its market share.

Subros is also setting up a new facility in Chennai 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 its product base and explore new avenues.

Outlook and valuation

We have revised our volume estimates downwards to factor in the sluggish demand scenario for passenger vehicles in 2HFY2012 due to high interest rates and rising fuel prices. As a result, our EPS estimates for FY2012E/13E stand revised at ₹3.3/₹4.1.

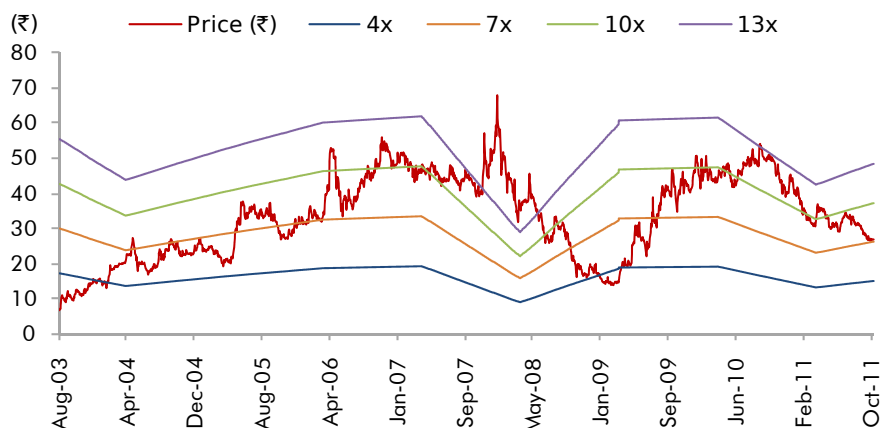
We estimate Subros to register a decline in its volume in FY2012E, led by slowdown in the passenger vehicle industry. Further, higher interest expense on account of increasing debt levels will negatively impact the company's bottom line. **At ₹27, the stock is trading at 8.2x FY2012E and 6.6x FY2013E earnings. We recommend a Neutral rating on the stock.**

Exhibit 6: Key assumptions

Volumes (units)	FY2008	FY2009	FY2010	FY2011	FY2012E	FY2013E
AC system – Auto	506,016	618,750	747,704	895,072	751,860	845,843
yoy change (%)	8.2	22.3	20.8	19.7	(16.0)	12.5

Source: Company, Angel Research

Exhibit 7: One-year forward P/E band



Source: Company, Bloomberg, Angel Research

Exhibit 8: Auto Ancillary – Recommendation summary

Company	Recommendation	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY11-13E EPS
					FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	CAGR (%)
Amara Raja	Buy	204	242	19.0	10.5	9.2	6.0	4.9	22.9	21.1	12.9
Automotive Axle [^]	Buy	384	450	17.2	9.5	8.5	5.5	4.8	27.6	26.2	24.2
Bharat Forge*	Neutral	300	-	-	17.5	14.9	8.8	7.2	18.3	18.1	26.9
Bosch India [#]	Accumulate	6,935	7,501	8.2	21.1	18.5	12.5	10.6	20.1	19.0	17.1
Exide Industries	Accumulate	121	128	5.3	21.8	15.7	13.4	9.4	16.3	20.1	1.7
FAG Bearings [#]	Accumulate	1,291	1,396	8.1	12.4	11.3	6.9	5.7	26.4	23.1	25.1
Motherson Sumi*	Accumulate	187	208	11.1	19.6	16.2	8.9	7.6	21.8	23.1	7.9
Subros	Neutral	27	-	-	8.2	6.6	4.7	4.0	8.3	10.0	(7.5)

Source: Company, Angel Research; Note: * Consolidated results; # December year end; ^ September year end

Profit and loss statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Gross sales	774	787	984	1,203	1,123	1,288
Less: Excise duty	111	92	78	114	107	122
Net Sales	663	694	905	1,089	1,016	1,166
Total operating income	663	694	905	1,089	1,016	1,166
% chg	2.4	4.8	30.4	20.3	(6.7)	14.7
Total Expenditure	579	631	813	1,001	928	1,067
Net Raw Materials	455	516	672	821	722	830
Other Mfg costs	33	31	38	54	62	71
Personnel	46	44	54	64	84	97
Other	45	39	48	63	60	69
EBITDA	83	63	93	88	88	99
% chg	12.4	(24.2)	46.9	(5.3)	0.5	12.1
(% of Net Sales)	12.6	9.1	10.3	8.1	8.7	8.5
Depreciation & Amortisation	33	32	38	41	43	49
EBIT	51	32	54	47	45	50
% chg	9.0	(37.8)	72.0	(12.8)	(4.9)	11.0
(% of Net Sales)	7.7	4.6	6.0	4.4	4.4	4.3
Interest & other Charges	11	15	16	18	25	25
Other Income	1	2	1	2	3	4
(% of PBT)	2.8	8.5	3.0	6.5	12.5	12.2
Recurring PBT	41	19	40	32	23	29
% chg	2.8	(54.8)	112.6	(19.0)	(27.7)	24.0
Extraordinary Items	-	-	-	(1)	-	-
PBT	41	18	40	33	23	29
Tax	12	5	11	3	3	4
(% of PBT)	30.4	28.3	28.9	10.5	15.0	15.0
PAT	29	13	28	30	20	24
Adj. PAT	29	13	28	29	20	24
% chg	2.9	(53.2)	109.5	1.6	(31.0)	24.0
(% of Net Sales)	4.3	1.9	3.1	2.6	1.9	2.1
Basic EPS (₹)	4.8	2.2	4.7	4.9	3.3	4.1
Fully Diluted EPS (₹)	4.8	2.2	4.7	4.8	3.3	4.1
% chg	2.9	(53.2)	109.5	1.6	(31.0)	24.0

Balance sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS						
Equity Share Capital	12	12	12	12	12	12
Reserves & Surplus	162	172	195	218	230	236
Shareholders' Funds	174	184	207	230	242	248
Total Loans	111	135	154	218	292	292
Deferred Tax Liability	8	12	11	15	15	15
Total Liabilities	293	331	372	463	548	554
APPLICATION OF FUNDS						
Gross Block	363	436	483	548	667	721
Less: Acc. Depreciation	194	218	256	281	324	373
Net Block	169	219	227	267	343	348
Capital Work-in-Progress	40	38	69	115	53	58
Goodwill	-	-	-	-	-	-
Investments	-	-	-	2	3	3
Current Assets	151	182	193	269	271	330
Cash	8	11	13	18	40	59
Loans & Advances	25	29	35	65	61	70
Other	118	141	146	186	170	201
Current liabilities	67	109	117	190	121	184
Net Current Assets	84	73	76	79	149	145
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	293	331	372	463	548	554

Cash flow statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	41	18	40	33	23	29
Depreciation	33	32	38	41	43	49
Change in Working Capital	(12)	(20)	(4)	(33)	53	(32)
Less: Other income	(35)	(56)	(16)	(8)	80	(69)
Direct taxes paid	12	5	11	3	3	4
Cash Flow from Operations	85	81	78	45	36	110
(Inc.)/Dec. in Fixed Assets	49	72	77	111	58	59
(Inc.)/Dec. in Investments	-	-	-	2	1	-
(Inc.)/Dec. in loans and adv.	-	(1)	1	(0)	-	(0)
Other income	(5)	(8)	-	33	-	-
Cash Flow from Investing	(59)	(87)	(78)	(46)	(58)	(59)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(15)	24	19	64	74	-
Dividend Paid (Incl. Tax)	6	6	4	5	6	7
Others	-	(0)	(0)	2	-	-
Cash Flow from Financing	(21)	18	16	57	68	(7)
Inc./(Dec.) in Cash	(0)	4	2	6	21	19
Opening Cash balance	8	7	11	13	18	40
Closing Cash balance	7	11	13	18	40	59

Key ratios

Y/E March	FY08	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	5.7	12.1	5.8	5.5	8.2	6.6
P/CEPS	2.6	3.6	2.4	2.3	2.6	2.2
P/BV	0.9	0.9	0.8	0.7	0.7	0.7
Dividend yield (%)	3.0	1.9	2.6	3.0	3.7	9.3
EV/Sales	0.3	0.4	0.3	0.3	0.4	0.3
EV/EBITDA	3.2	4.5	3.3	4.1	4.7	4.0
EV / Total Assets	0.9	0.9	0.8	0.8	0.8	0.7
Per Share Data (₹)						
EPS (Basic)	4.8	2.2	4.7	4.9	3.3	4.1
EPS (fully diluted)	4.8	2.2	4.7	4.8	3.3	4.1
Cash EPS	10.2	7.5	11.1	11.7	10.5	12.2
DPS	0.8	0.5	0.7	0.8	1.0	2.5
Book Value	29.0	30.7	34.5	38.4	40.3	41.3
DuPont Analysis						
EBIT margin	7.7	4.6	6.0	4.4	4.4	4.3
Tax retention ratio	0.7	0.7	0.7	0.9	0.9	0.8
Asset turnover (x)	2.4	2.3	2.7	2.7	2.1	2.3
RoIC (Post-tax)	12.6	7.5	11.4	10.5	8.0	8.5
Cost of Debt (Post Tax)	6.4	8.5	7.9	8.4	8.3	7.2
Leverage (x)	0.7	0.6	0.7	0.8	0.9	1.0
Operating RoE	16.8	6.9	13.7	12.2	7.8	9.7
Returns (%)						
RoCE (Pre-tax)	17.6	10.1	15.5	11.4	8.9	9.1
Angel RoIC (Pre-tax)	17.8	9.9	15.1	10.7	8.9	10.1
RoE	17.6	7.5	14.4	13.1	8.3	10.0
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	1.7	2.0	2.1	1.7	1.7
Inventory / Sales (days)	53	47	37	45	43	44
Receivables (days)	15	21	21	17	18	19
Payables (days)	31	42	43	49	53	52
WC cycle (ex-cash) (days)	46	36	25	21	31	31
Solvency ratios (x)						
Net debt to equity	0.6	0.7	0.7	0.9	1.0	0.9
Net debt to EBITDA	1.2	2.0	1.5	2.2	2.8	2.3
Interest Coverage (EBIT/Interest)	4.7	2.2	3.4	2.7	1.8	2.0

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Subros
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%)
--------------------	------------------------------------	---	--------------------