

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	SUBR.BO
Bloomberg code	SUBR IN
Market cap. (US\$ mn)	51.3
6M avg. daily turnover (US\$ mn)	0.2
Issued shares (mn)	60
Target price (Rs)	51

Performance (%)	1M	3M	12M
Absolute	(3)	42	133
Relative	(1)	33	21

#### Valuation Ratios

Yr end 31 Mar	FY10E	FY11E
EPS (Rs)	3.9	5.2
(%)	79.1	32
PER (x)	10.2	7.7
PBV (x)	1.2	1.1
Div. / Yield (%)	2	2
EV / Sales (X)	0.4	0.4
EV / EBITDA	3.8	3.4

#### Major shareholders (%)

Promoters	40
MFs	6
BFSI's	1
Public & Others	53

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	1,683	2,185	29.8	3,435	4,284	24.7	6,958	8,902	27.9	9,817	10.3
EBITDA	148	234	58.0	354	417	18.0	642	912	42.1	1,031	13.1
EBITDA Margin (%)	8.8	10.7	–	10.3	9.7	–	9.2	10.2	–	10.5	–
Other Income	3	–	–	6	–	–	5	15	183.1	15	0.0
Interest	24	43	79.3	51	88	72.7	146	192	31.8	162	(15.9)
Depreciation	76	95	25.6	149	190	28.1	316	398	25.9	440	10.5
PBT	51	96	87.9	160	139	(13.2)	185	337	81.9	445	32.0
Tax	14	29	104.2	45	40	(11.8)	54	101	88.8	134	32.0
PAT	37	67	81.5	116	100	(13.8)	132	236	79.1	312	32.0
PAT margin (%)	2.2	3.1	–	3.4	2.3	–	1.9	2.7	–	3.2	–
EPS (Rs)	0.6	1.1	81.5	1.9	1.7	(13.8)	2.2	3.9	77.3	5.2	33.3
P/E (x)	–	–	–	–	–	–	18.2	10.2	–	7.7	–

## Subros

Maintain BUY

Price: Rs 40

BSE Index: 16,353

27 October 2009

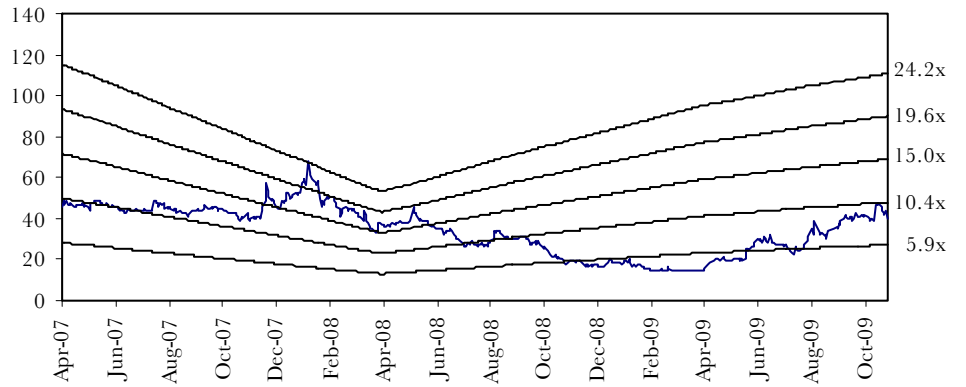
### 2QFY10 Result – Maintaining strong growth

Subros performed in line with our estimates and continues to register impressive growth. Subros has followed the Maruti's good performance as it is the largest air conditioner supplier to the company and has also benefitted from the overall improvement in the passenger car sales. The volumes and realisations grew ~16% and 12% on a YoY basis. We believe addition of complete A/C kit business from 'A Star' and the volume growth in HVAC units from Swift, Dezire and SX4 car models of MUL abetted the volume and realisation improvement. Subros sold 179,462 units during the quarter compared to 154,795 units a year ago and 171,699 units in 1QFY10. The operating margins improved both on a YoY and QoQ basis. Increased localisation and stable foreign exchange rate has helped the company in the margin expansion during the quarter. Subros is also supplying complete A/C kits to Force Motors and is the single source supplier for M&M's Xylo. The interest and depreciations costs have stabilised sequentially. The net profit improved significantly by 81% YoY to Rs 67 mn.

### Outlook and valuation

We expect the company to maintain robust volume growth going forward due to the continuing improvement in performance of its key customers like Maruti, Tata Motors and M&M. The rising commodity prices may put some pressure on the margins going forward. However, the stabilisation of rupee-yen exchange rate would favour the company coupled with increase in the localisation of the key components. At the current market price of Rs 40, the stock is trading at 10.2x FY10E and 7.7x FY11E earnings. We maintain Buy on the stock maintaining the target price of Rs 51.

PER Band



Source: B&K Research

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	<b>6626</b>	<b>6958</b>	<b>8902</b>	<b>9817</b>
Growth (%)	2.0	5.0	28.0	10.0
Operating Expenses	(5793)	(6316)	(7990)	(8785)
Operating Profit	833	642	912	1031
<b>EBITDA</b>	<b>833</b>	<b>642</b>	<b>912</b>	<b>1031</b>
Growth (%)	12.3	(22.9)	42.1	13.1
Depreciation	(325)	(316)	(398)	(440)
Other Income	11	5	15	15
<b>EBIT</b>	<b>519</b>	<b>331</b>	<b>530</b>	<b>607</b>
Interest Paid	(109)	(146)	(192)	(162)
Pre-tax profit	410	185	337	445
(before non-recurring items)				
Non-recurring items	0	0	0	0
Pre-tax profit	410	185	337	445
(after non recurring items)				
Tax (current + deferred)	(125)	(54)	(101)	(134)
<b>Net Profit</b>	<b>286</b>	<b>132</b>	<b>236</b>	<b>312</b>
<b>Reported PAT</b>	<b>286</b>	<b>132</b>	<b>236</b>	<b>312</b>
<b>Adjusted net profit</b>	<b>286</b>	<b>132</b>	<b>236</b>	<b>312</b>
Growth (%)	0.5	(53.9)	79.1	32.0

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	1,507	1,691	2,078	2,424
Cash & Marketable Securities	75	82	51	219
Other Current Assets	1,432	1,608	2,027	2,205
Net fixed assets	2,087	2,172	2,310	2,105
<b>Total assets</b>	<b>3,594</b>	<b>3,863</b>	<b>4,388</b>	<b>4,529</b>
Current Liabilities	668	785	879	914
Total debt	1,110	1,144	1,394	1,244
Other non-current liabilities	75	117	117	117
<b>Total Liabilities</b>	<b>1,853</b>	<b>2,046</b>	<b>2,391</b>	<b>2,276</b>
Share capital	120	120	120	120
Reserves & Surplus	1,620	1,697	1,877	2,133
<b>Shareholders' funds</b>	<b>1,740</b>	<b>1,817</b>	<b>1,997</b>	<b>2,253</b>
<b>Total equity &amp; liabilities</b>	<b>3,594</b>	<b>3,863</b>	<b>4,388</b>	<b>4,529</b>
<b>Capital employed</b>	<b>2,926</b>	<b>3,078</b>	<b>3,508</b>	<b>3,615</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	410	185	337	445
Depreciation	(325)	(316)	(398)	(440)
Chg in working capital	130	(42)	(325)	(143)
Total tax paid	(124)	(29)	(101)	(134)
<b>Cash flow from Oper. (a)</b>	<b>741</b>	<b>431</b>	<b>309</b>	<b>609</b>
Capital expenditure	(488)	(388)	(535)	(235)
Others	(48)	(14)	0	0
<b>Cash flow from Inv. (b)</b>	<b>(537)</b>	<b>(402)</b>	<b>(535)</b>	<b>(235)</b>
<b>Free cash flow (a+b)</b>	<b>205</b>	<b>29</b>	<b>(226)</b>	<b>374</b>
Debt raised / (repaid)	(151)	34	250	(150)
Dividend (incl tax.)	(56)	(56)	(56)	(56)
<b>Cash flow from fin. (c)</b>	<b>(207)</b>	<b>(22)</b>	<b>194</b>	<b>(206)</b>
<b>Net chg in cash (a + b + c)</b>	<b>(2)</b>	<b>7</b>	<b>(31)</b>	<b>168</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	4.8	2.2	3.9	5.2
Growth	0.5	(53.9)	79.1	32.0
Book NAV/Share (Rs)	29.0	30.3	33.3	37.6
Dividend/Share (Rs)	0.8	0.8	0.8	0.8
Dividend payout ratio	19.7	42.2	23.5	17.8
Tax	30.4	28.9	30.0	30.0
EBITDA margin	12.6	9.2	10.2	10.5
EBIT margin	7.8	4.8	5.9	6.2
RoCE	17.9	11.0	16.1	17.0
Net debt / Equity	59.5	58.4	67.2	45.5

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	8.4	18.3	10.2	7.7
PCE	3.9	5.4	3.8	3.2
Price / Book	1.4	1.3	1.2	1.1
Yield (%)	2.0	2.0	2.0	2.0
EV / Net sales	0.4	0.5	0.4	0.4
EV / EBITDA	2.9	5.4	3.8	3.4

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	4.3	1.9	2.7	3.2
Asset turnover	1.9	1.9	2.2	2.2
Leverage factor	2.2	2.1	2.2	2.1
Return on equity (%)	17.6	7.4	12.4	14.7

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**Analyst Declaration:** We, Anurag Randev & Shweta Mungre, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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