

Subros

Performance Highlights

Y/E March (₹ cr)	3QFY11	3QFY10	% chg (yoy)	2QFY11	% chg (qoq)
Net sales	273.3	228.2	19.7	278.2	(1.8)
EBITDA	20.3	25.7	(21.1)	18.7	8.6
EBITDA margin (%)	7.4	11.3	(384)bp	6.7	71bp
Reported PAT	5.5	8.7	(36.8)	4.9	13.3

Source: Company, Angel Research

For 3QFY2011, Subros reported a weak performance on the bottom-line front, despite healthy volume and top-line performance. Operating performance was subdued during the quarter due to the substantial increase in raw-material cost leading to a significant contraction in margins. **We revise our earnings estimates downwards to account for raw-material cost pressures and recommend Neutral on the stock.**

Overall performance below expectation: For 3QFY2011, Subros reported healthy 19.7% yoy growth in net sales to ₹273.3cr (₹228.2cr). Growth was primarily driven by 18.1% yoy growth in volumes and a marginal 1.4% increase in average net realisation. However, on a sequential basis, revenue and volume declined by 1.8% and 4.6%, respectively. Operating profit during the quarter was down by a significant 21.1% yoy, owing to contraction in EBITDA margins, which declined by 384bp yoy to 7.4%. Thus, net profit declined by substantial 36.8% yoy to ₹5.5cr (₹8.7cr).

Outlook and valuation: We estimate the company's volumes to post a ~16% CAGR over FY2010–12E, considering the increasing requirements of its OEM customers such as Maruti and Tata Motors and potential new client wins from the PV and CV segments. However, we expect realisations to remain stable or decline marginally due to the aggressive pricing adopted by OEMs. We have revised our earnings estimates downwards to account for raw-material cost pressures and estimate Subros to post EPS of ₹3.7 for FY2011E and ₹4.3 for FY2012E. At ₹38, the stock is trading at 10.3x FY2011E and 8.9x FY2012E earnings. **We recommend Neutral on the stock.**

Key financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	694	905	1,066	1,238
% chg	4.8	30.4	17.7	16.1
Net profit	13.4	28.1	22.1	25.6
% chg	(53.2)	109.5	(21.3)	15.8
OPM (%)	9.1	10.3	7.6	8.3
EPS (₹)	2.2	4.7	3.7	4.3
P/E (x)	17.0	8.1	10.3	8.9
P/BV (x)	1.2	1.1	1.0	0.9
RoE (%)	7.5	14.4	10.1	10.7
RoCE (%)	10.1	15.5	10.2	12.1
EV/Sales (x)	0.4	0.4	0.3	0.3
EV/EBITDA (x)	5.6	4.0	4.9	4.0

Source: Company, Angel Research

NEUTRAL

CMP	₹38
Target Price	-

Investment Period	-
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	228
Beta	0.9
52 Week High / Low	56/37
Avg. Daily Volume	3,549,160
Face Value (₹)	2
BSE Sensex	18,008
Nifty	5,396
Reuters Code	SUBR.BO
Bloomberg Code	SUBR@IN

Shareholding Pattern (%)	
Promoters	40.0
MF / Banks / Indian Fls	10.2
FII / NRIs / OCBs	26.8
Indian Public / Others	23.0

Abs. (%)	3m	1yr	3yr
Sensex	(13.8)	11.0	(3.5)
Subros	(15.8)	(17.6)	(25.0)

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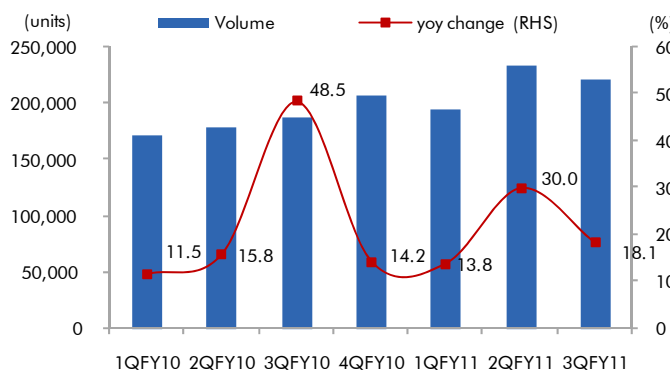
Exhibit 1: Quarterly performance

Y/E Mar (₹ cr)	3QFY11	3QFY10	% chg	9MFY11	9MFY10	% chg
Net Sales	273.3	228.2	19.7	785.4	656.0	19.7
Consumption of RM	206.5	167.4	23.4	595.7	488.9	21.8
(% of Sales)	75.6	73.3		75.8	74.5	
Staff Costs	17.2	13.6	26.8	48.2	38.6	24.9
(% of Sales)	6.3	6.0		6.1	5.9	
Other Expenses	29.3	21.6	35.7	81.3	61.7	31.9
(% of Sales)	10.7	9.4		10.4	9.4	
Total Expenditure	253.0	202.5	24.9	725.3	589.2	23.1
EBITDA	20.3	25.7	(21.1)	60.2	66.9	(10.0)
EBITDA margin (%)	7.4	11.3		7.7	10.2	
Interest	4.0	3.8	6.1	12.1	12.6	(4.3)
Depreciation	10.1	9.8	3.6	29.8	28.8	3.4
Other Income	0.5	0.3	69.0	1.3	0.9	47.1
PBT (excl. Extr. Items)	6.1	12.1	(49.4)	18.3	25.5	(28.1)
Extr. Income/(Expense)	-	-	-	-	-	-
PBT (incl. Extr. Items)	6.6	12.4	(46.7)	19.6	26.3	(25.6)
(% of Sales)	2.4	5.4		2.5	4.0	
Provision for Taxation	1.1	3.7	(69.9)	2.1	7.6	(72.6)
(% of PBT)	0.4	1.6		0.3	1.2	
Reported PAT	5.5	8.7	(36.8)	17.5	18.7	(6.4)
PATM (%)	2.0	3.8		2.2	2.9	
Equity shares (cr)	12.0	12.0		12.0	12.0	
EPS (₹)	0.9	1.5	(36.8)	2.9	3.1	(6.4)

Source: Company, Angel Research

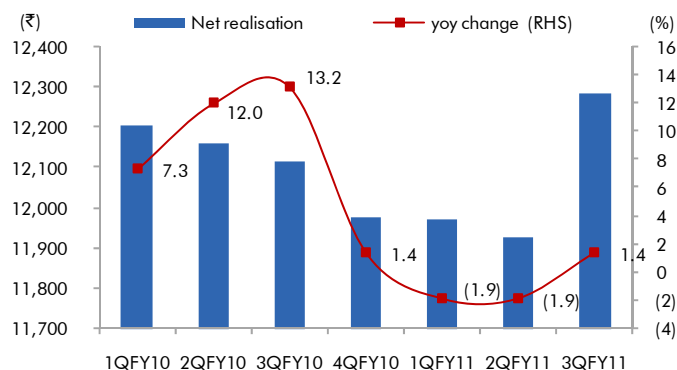
Net sales up 19.7%, lower than expectations: For 3QFY2011, Subros reported a 19.7% yoy jump in net sales to ₹273.3cr (₹228.2cr), which was marginally lower than our expectations. Growth was primarily driven by 18.1% growth in volumes, with the company selling 222,460 (188,319) AC units in 3QFY2011. Average net realisation increased marginally by 1.4% yoy during the quarter. However, on a sequential basis, revenue and volumes declined by 1.8% and 4.6%, respectively.

Exhibit 2: Volume-led sales growth



Source: Company, Angel Research

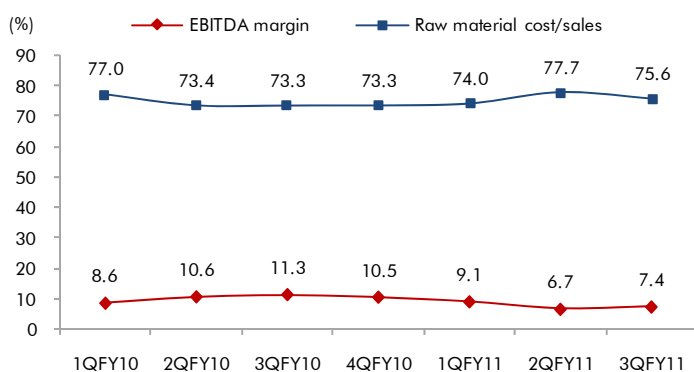
Exhibit 3: Realisation up by 1.4%



Source: Company, Angel Research

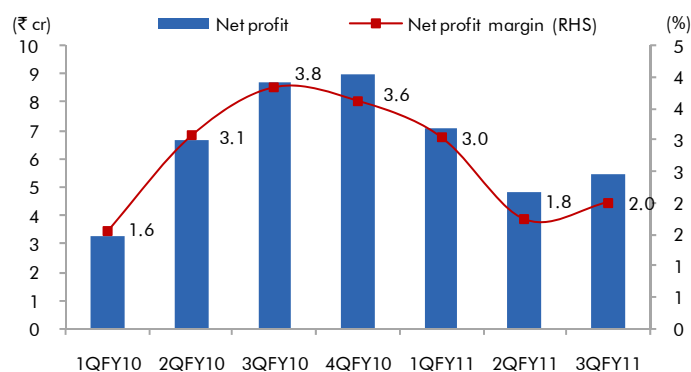
Margin contracts by 384bp on input cost pressures: For 3QFY2011, Subros registered a substantial 384bp yoy contraction in EBITDA margin, largely on account of the 223bp yoy increase in raw-material costs, which as a percentage of sales stood at 75.6% (73.3%). Further, increased other expenditure (up 126bp yoy) and staff costs (up 35bp yoy) impacted margins. As a result, operating profit declined by 21.1% yoy to ₹20.3cr (₹25.7cr). Noticeably, operating margins improved on a qoq basis by 71bp due to the 214bp decrease in raw-material cost, leading to an 8.6% qoq increase in operating profit.

Exhibit 4: EBITDA margin at 7.4% yoy



Source: Company, Angel Research

Exhibit 5: Profitability trend



Source: Company, Angel Research

Net profit up 13.3% qoq but declines yoy: Despite healthy volume growth, net profit declined significantly by 36.8% yoy to ₹5.5cr (₹8.7cr) due to higher raw-material cost. However, lower tax outgo during the quarter restricted the further decline in the bottom line, with net profit growing by 13.3% qoq.

Investment arguments

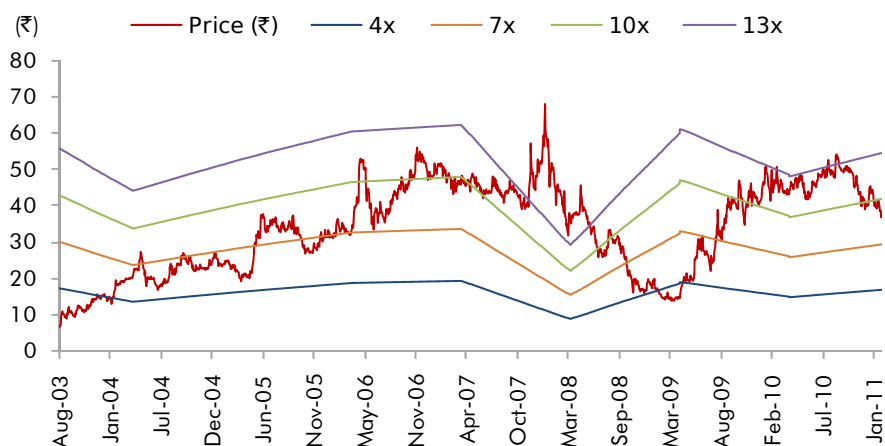
- **Improved PV volumes to boost growth:** We have estimated the PV segment to post a healthy ~14% CAGR over FY2010–12E. Given the company's dependence on the PV segment, we expect it to gain from India's small car growth story. The company's volumes would also get a push due to the continuous capacity ramp-up by new and existing players. Accordingly, we expect Subros to register a ~16% volume CAGR of over FY2010–12E.
- **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 ramped up its capacity to 1mn units per year and proposes to expand capacity to 1.5mn units per year in the first phase and further to about 2mn units per year in the next two–three years. The capacity expansion will enable Subros to assure volume to its OEM customers and to capture increased demand, as it is already operating at ~93% of its enhanced capacity.

The company is planning to set 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. Further, the company is looking at opening a plant in Sanand to supply parts to Nano.

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

We estimate Subros to post a ~16% volume CAGR of over FY2010–12E, considering the increasing requirements of its OEM customers such as Maruti and Tata Motors and potential new client wins from the PV and CV segments. However, we expect realisations to remain stable or decline marginally due to the aggressive pricing adopted by OEMs. We have revised our earnings estimates downwards to account for raw-material cost pressures and estimate Subros to post EPS of ₹3.7 for FY2011E and ₹4.3 for FY2012E. At ₹38, the stock is trading at 10.3x FY2011E and 8.9x FY2012E earnings. **We recommend Neutral on the stock.**

Exhibit 6: One-year forward P/E band


Source: Company, Bloomberg, Angel Research

Exhibit 7: Auto Ancillary – Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY10-12E EPS
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	CAGR (%)
Amara Raja	Buy	171	240	40.7	10.0	7.6	5.7	4.4	23.8	25.1	7.1
Automotive Axle [^]	Buy	363	490	35.0	11.1	10.4	5.7	5.1	22.1	19.8	9.6
Bharat Forge* &	Buy	333	404	21.3	26.7	16.5	12.9	9.4	16.9	21.7	-
Bosch India [#]	Accumulate	6,040	6,766	12.0	22.1	19.2	13.5	11.3	23.7	22.7	37.0
Exide Industries	Buy	130	157	20.8	17.4	15.1	10.8	8.2	23.9	24.3	16.8
FAG Bearings [#]	Buy	825	1,035	25.5	11.6	10.8	6.0	5.1	22.9	20.4	39.5
Motherson Sumi*	Neutral	186	-	-	21.3	16.0	8.9	7.6	27.3	32.2	36.7
Subros	Neutral	38	-	-	10.3	8.9	4.9	4.0	10.1	10.7	(4.5)

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)	FY07	FY08	FY09	FY10	FY11E	FY12E
Gross sales	755	774	787	984	1,178	1,375
Less: Excise duty	108.0	111.4	92.2	78.4	111.9	137.5
Net Sales	647	663	694	905	1,066	1,238
Total operating income	647	663	694	905	1,066	1,238
% chg	14.5	2.4	4.8	30.4	17.7	16.1
Total Expenditure	573	579	631	813	985	1,135
Net Raw Materials	458.4	455.1	516.3	671.9	808.3	934.3
Other Mfg costs	30.4	32.6	31.3	38.4	50.6	55.1
Personnel	38.2	46.2	44.2	53.8	66.0	76.7
Other	45.7	45.4	39.5	48.5	60.4	69.3
EBITDA	74.2	83.4	63.2	92.8	80.7	102.1
% chg	20.6	12.4	(24.2)	46.9	(13.1)	26.5
(% of Net Sales)	11.5	12.6	9.1	10.3	7.6	8.3
Depreciation & Amortisation	27.5	32.5	31.6	38.5	39.9	48.1
EBIT	46.7	50.8	31.6	54.4	40.8	54.0
% chg	25.5	9.0	(37.8)	72.0	(25.0)	32.4
(% of Net Sales)	7.2	7.7	4.6	6.0	3.8	4.4
Interest & other Charges	8.0	10.9	14.6	16.0	16.6	20.4
Other Income	1.3	1.2	1.6	1.2	1.8	2.0
(% of PBT)	3.3	2.8	8.5	3.0	6.8	5.5
Recurring PBT	40.0	41.1	18.6	39.5	26.0	35.6
% chg	14.0	2.8	(54.8)	112.6	(34.2)	36.7
Extraordinary Items	-	-	0.3	-	-	-
PBT	40.0	41.1	18.3	39.5	26.0	35.6
Tax	12.2	12.5	5.2	11.4	3.9	10.0
(% of PBT)	30.5	30.4	28.3	28.9	15.0	28.0
PAT	27.8	28.6	13.1	28.1	22.1	25.6
Adj. PAT	27.8	28.6	13.4	28.1	22.1	25.6
% chg	14.6	2.9	(53.2)	109.5	(21.3)	15.8
(% of Net Sales)	4.3	4.3	1.9	3.1	2.1	2.1
Basic EPS (₹)	4.6	4.8	2.2	4.7	3.7	4.3
Fully Diluted EPS (₹)	4.6	4.8	2.2	4.7	3.7	4.3
% chg	14.6	2.9	(53.2)	109.5	(21.3)	15.8

Balance Sheet

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
SOURCES OF FUNDS						
Equity Share Capital	12.0	12.0	12.0	12.0	12.0	12.0
Reserves & Surplus	139.0	162.1	172.0	195.2	219.4	235.1
Shareholders' Funds	151.0	174.1	184.0	207.2	231.4	247.1
Total Loans	126.1	111.0	135.0	154.1	184.1	204.1
Deferred Tax Liability	8.8	7.5	11.7	11.2	11.2	11.2
Total Liabilities	286.0	292.6	330.6	372.4	426.6	462.3
APPLICATION OF FUNDS						
Gross Block	331.4	363.1	436.3	482.8	570.1	641.2
Less: Acc. Depreciation	166.5	194.2	217.6	256.3	296.2	344.3
Net Block	164.9	169.0	218.7	226.5	273.9	296.9
Capital Work-in-Progress	22.6	39.7	38.2	69.2	57.0	51.3
Goodwill	-	-	-	-	-	-
Investments	-	-	0.4	0.4	0.6	0.7
Current Assets	161.6	150.7	181.7	193.5	239.1	279.1
Cash	7.7	7.5	11.3	12.8	14.8	18.1
Loans & Advances	26.7	25.3	29.3	34.9	42.6	49.5
Other	127.2	117.9	141.2	145.8	181.6	211.5
Current liabilities	63.1	66.8	108.5	117.2	144.0	165.7
Net Current Assets	98.4	83.9	73.2	76.3	95.1	113.4
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	286.0	292.6	330.6	372.4	426.6	462.3

Cash flow statement

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Profit before tax	40.0	41.1	18.3	39.5	26.0	35.6
Depreciation	27.5	32.5	31.6	38.5	39.9	48.1
Change in Working Capital	12.5	(11.6)	(20.1)	(4.1)	9.4	8.8
Less: Other income	21.2	(35.5)	(56.1)	(15.9)	2.4	8.6
Direct taxes paid	12.2	12.5	5.2	11.4	3.9	10.0
Cash Flow from Operations	46.6	85.0	80.6	78.3	68.9	73.9
(Inc.)/Dec. in Fixed Assets	78.2	48.8	71.7	77.5	75.1	65.4
(Inc.)/Dec. in Investments	-	-	0.4	-	0.2	0.1
(Inc.)/Dec. in loans and adv.	0.6	0.1	(0.9)	0.8	-	-
Other income	0.1	(4.8)	(7.7)	0.3	-	-
Cash Flow from Investing	(78.5)	(58.5)	(86.5)	(77.7)	(75.4)	(65.4)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	44.1	(15.1)	24.0	19.1	30.0	20.0
Dividend Paid (Incl. Tax)	4.8	5.6	5.6	3.5	4.9	4.8
Others	(0.1)	0.1	-	-	-	-
Cash Flow from Financing	32.5	(20.8)	18.4	15.6	25.1	15.2
Inc./(Dec.) in Cash	0.6	(0.2)	3.8	1.5	2.1	3.3
Opening Cash balance	7.1	7.7	7.5	11.3	12.8	14.8
Closing Cash balance	7.7	7.5	11.3	12.8	14.8	18.1

Key ratios

Y/E March	FY07	FY08	FY09	FY10	FY11E	FY12E
Valuation Ratio (x)						
P/E (on FDEPS)	8.2	8.0	17.0	8.1	10.3	8.9
P/CEPS	4.1	3.7	5.1	3.4	3.7	3.1
P/BV	1.5	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	2.1	2.1	1.3	1.8	1.8	1.8
EV/Sales	0.5	0.4	0.4	0.4	0.3	0.3
EV/EBITDA	4.7	4.0	5.6	4.0	4.9	4.0
EV / Total Assets	1.2	1.1	1.1	1.0	0.9	0.9
Per Share Data (₹)						
EPS (Basic)	4.6	4.8	2.2	4.7	3.7	4.3
EPS (fully diluted)	4.6	4.8	2.2	4.7	3.7	4.3
Cash EPS	9.2	10.2	7.5	11.1	10.3	12.3
DPS	0.8	0.8	0.5	0.7	0.7	0.7
Book Value	25.2	29.0	30.7	34.5	38.6	41.2
DuPont Analysis						
EBIT margin	7.2	7.7	4.6	6.0	3.8	4.4
Tax retention ratio	0.7	0.7	0.7	0.7	0.9	0.7
Asset turnover (x)	2.6	2.4	2.3	2.7	2.8	2.9
RoIC (Post-tax)	13.3	12.6	7.5	11.4	9.0	9.1
Cost of Debt (Post Tax)	5.3	6.4	8.5	7.9	8.3	7.6
Leverage (x)	0.7	0.7	0.6	0.7	0.7	0.7
Operating RoE	18.8	16.8	6.9	13.7	9.5	10.2
Returns (%)						
RoCE (Pre-tax)	18.5	17.6	10.1	15.5	10.2	12.1
Angel RoIC (Pre-tax)	16.8	17.8	9.9	15.1	9.9	12.2
RoE	19.9	17.6	7.5	14.4	10.1	10.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.3	1.9	1.7	2.0	2.0	2.0
Inventory / Sales (days)	52	53	47	37	44	44
Receivables (days)	16	15	21	21	18	18
Payables (days)	31	31	42	43	42	44
WC cycle (ex-cash) (days)	46	46	36	25	25	26
Solvency ratios (x)						
Net debt to equity	0.8	0.6	0.7	0.7	0.7	0.7
Net debt to EBITDA	1.6	1.2	2.0	1.5	2.1	1.8
Interest Coverage (EBIT/Interest)	5.8	4.7	2.2	3.4	2.5	2.6

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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%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to 15%)	Sell (< -15%)	