

# SUBROS (SUBROS)

Rs. 39

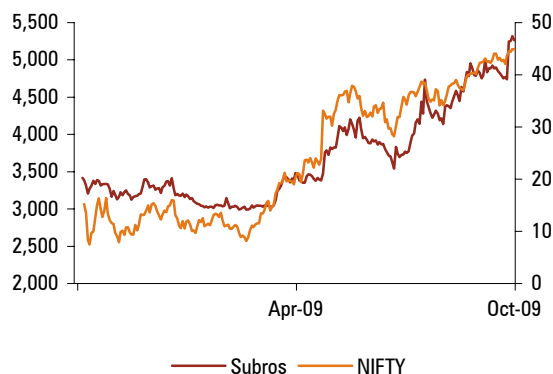
Rating matrix	
Rating	: <b>Outperformer</b>
Target	: Rs. 47
Target Period	: 9 months
Potential Upside	: 21 %

Key Financials				
(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	694.4	875.6	931.0	1081.7
EBITDA	63.2	86.7	104.3	109.7
Net Profit	13.6	23.4	33.9	40.5

Valuation summary				
	FY09	FY10E	FY11E	FY12E
PE (x)	17.7	10.0	6.9	5.8
Target PE (x)	24.5	13.8	9.6	8.0
EV to EBITDA (x)	5.8	3.9	2.8	2.4
Price to book (x)	1.3	1.1	1.0	0.9
RoNW (%)	7.6	12.1	15.5	16.2
RoCE (%)	12.2	16.5	20.9	22.6

Stock data	
Market Capitalisation	Rs 234 crore
Debt (FY08)	Rs 135 crore
Cash (FY08)	Rs 0.04 crore
EV	Rs 368.9 crore
52 week H/L	Rs 40/14
Equity capital	Rs 11.9 crore
Face value	Rs 2
MF Holding (%)	5.2
RI Holding (%)	0.3

## Price movement (stock vis Nifty)



## Analyst's name

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## WHAT'S CHANGED...

PRICE TARGET .....	Changed from Rs 42 to Rs 47
EPS (FY10E) .....	Changed from Rs 3.8 to Rs 3.9
EPS (FY11E) .....	Changed from Rs 5.5 to Rs 5.6
EPS (FY12E) new .....	Rs 6.7
RATING.....	OUTPERFORMER

## Splendid performance ...

Subros continued its strong performance on the back of reviving demand from its key clients Maruti Suzuki and Tata Motors. For Q2FY10 net sales reported whopping 29.8% growth to 218.5 crore led by 15.9% volume growth and 5.9% realization growth. EBITDA margins improved 190 basis points (bps) to 10.7% mainly contributed by higher realization. The 50% of raw material is imported and adverse rupee dollar and rupee yen currency movement restricted company to benefit from softening of raw material prices. The net profit reported substantial 81.5% growth to Rs 6.7 crore.

## Outlook and revision of financial estimates

With the reviving demand from original equipment manufacturers and introduction of new high margin products, the company is set to report strong growth numbers in coming years. We are revising our financial earning estimates for FY10 and FY11 and introducing FY12 financials. We expect company to report sales CAGR of 15.9% and net profit CAGR of 45.3% over FY09-12E (Refer exhibit 3). We expect net sales of Rs 1,081.7 crore and net profit of RS 40.5 crore in FY12.

## Valuation

We are revising our target price to Rs 47 valuing company 7x its FY12E EPS of Rs 6.7, upgrading from earlier price target of Rs 42. The positive demand outlook and improving financials are key reason for revision of target price. At CMP of Rs 39, the stock is trading 10x and 6.9x its FY10E and FY11E EPS. We reiterate our **OUTPERFORMER** rating on the stock.

## Exhibit 1: Performance Highlights

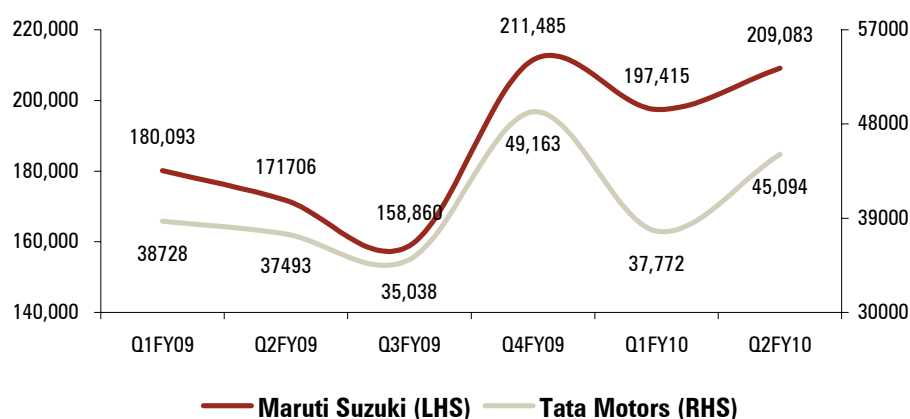
Rs Crore	Q2FY10	Q2FY10E	Q2FY09	Q1FY10	QoQCh (%)	YoY Ch (%)
Net Sales	218.5	230.0	168.3	209.9	4.1	29.8
EBITDA margins (%)	10.7	10.2	8.8	8.8		
Depreciation	9.5	10.0	7.6	9.5	0.2	25.6
Interest	4.3	5.0	2.4	4.6	-6.8	79.3
Other income	-	-	0.3	0.0	Nc	NC
Reported PAT	6.7	6.0	3.7	3.3	101.8	81.5
EPS (Rs.)	1.1	1.0	0.6	0.6	101.8	102.4

Source: Company, ICICIdirect.com Research

## Financial revision

We have revised our earning estimates and target price in our report dated August 7, 2009. Rising demand from its key customers (Maruti Suzuki and Tata Motors) and excellent performance of Q2FY10 provides positive outlook for the company going forward. We are further revising our FY10 and FY11 financial estimates (Refer table below) and introducing FY12 earning estimates. Accordingly we expects, company to report net sales CAGR (FY09-12E) of 15.9% and net profit CAGR of 45.3%.

### Exhibit 2: Demand driver



Source: Company, ICICIdirect.com Research

### Exhibit 3: Revised financial estimates (Rs crore)

-12E)	Old		New		%chg	
	FY10E	FY11E	FY10E	FY11E	FY10E	FY11E
Net sales	833.5	884.6	875.6	931.0	5.1	5.2
EBITDA	83.5	94.8	86.7	104.3	3.9	10.1
EBITDA margins (%)	10.0	10.7	9.9	11.2	-	-
Net profit	22.9	31.5	23.4	33.9	2.3	7.5
EPS (Rs)	3.8	5.5	3.9	5.6	2.8	2.6

Source: ICICIdirect.com Research

## Exhibit 4: ICICIdirect.com Research universe

Tata Motors					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)*	RoNW (%)	RoCE (%)
<b>Idirect Code</b>	TELCO	<b>CMP</b>	547	<b>FY09</b>	25,354.1	19.5	28.1	38.3	10.0	7.1
		<b>Target</b>	560	<b>FY10E</b>	29,102.8	51.5	10.6	12.9	19.8	13.0
<b>Mcap (Rs cr)</b>	28,119	<b>% Upside</b>	2.4	<b>FY11E</b>	31,813.4	59.3	9.2	11.3	19.2	11.8
<b>Bajaj Auto</b>					<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	BAAUTO	<b>CMP</b>	1,470	<b>FY09</b>	8,696.2	44.0	33.4	20.4	38.9	36.8
		<b>Target</b>	1,508	<b>FY10E</b>	11,077.4	92.4	15.9	10.1	61.5	58.0
<b>Mcap (Rs cr)</b>	21,268.0	<b>% Upside</b>	2.6	<b>FY11E</b>	12,012.4	100.5	14.6	9.9	46.9	49.6
<b>Escorts</b>					<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	ESCORT	<b>CMP</b>	117	<b>FY08</b>	2,051.5	1.3	89.7	9.6	-1.6	7.0
		<b>Target</b>	84	<b>FY09E</b>	2,097.0	3.8	30.5	7.6	4.8	8.7
		<b>% Upside</b>	-28.2	<b>FY10E</b>	2,384.2	5.1	23.1	7.1	5.8	9.3
<b>Mcap (Rs cr)</b>	987.5			<b>FY11E</b>	2626.1	6.0	19.5	6.6	6.3	9.3
<b>Automotive Axle</b>					<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	AUTAXL	<b>CMP</b>	310	<b>FY08</b>	727.9	51.2	6.1	3.5	52.4	52.5
		<b>Target</b>	62	<b>FY09E</b>	261.2	1.0	295.8	17.3	0.9	3.4
<b>Mcap (Rs cr)</b>	468.7	<b>% Upside</b>	-80.0	<b>FY10E</b>	419.4	10.3	30.0	9.2	8.7	12.2
<b>Balkrishna Industries</b>					<b>Sales(Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	BALIND	<b>CMP</b>	413	<b>FY09</b>	1175.4	32.7	12.6	6.0	14.5	13.5
		<b>Target</b>	402	<b>FY10E</b>	1,299.2	100.7	4.1	5.5	36.0	26.8
<b>Mcap (Rs cr)</b>	798.4	<b>% Upside</b>	-2.7	<b>FY11E</b>	1,497.2	110.4	3.7	3.2	30.7	28.8
<b>Bharat Forge</b>					<b>Sales(Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	BHAFOR	<b>CMP</b>	273	<b>FY09</b>	4,774.0	1.1	239.2	14.9	3.6	9.6
		<b>Target</b>	180	<b>FY10E</b>	4,972.9	4.4	61.9	11.8	6.4	17.3
<b>Mcap (Rs cr)</b>	6,079.7	<b>% Upside</b>	-34.1	<b>FY11E</b>	5,356.8	9.0	30.3	10.2	17.8	21.7
<b>JK Tyres</b>					<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	JKIND	<b>CMP</b>	151	<b>FY08</b>	3,263.7	23.7	6.4	5.7	13.3	13.1
		<b>Target</b>	84	<b>FY09E</b>	3,051.0	8.9	17.0	7.9	4.4	7.7
<b>Mcap (Rs cr)</b>	620.0	<b>% Upside</b>	-44.4	<b>FY10E</b>	3,528.9	10.5	14.4	6.9	4.9	8.6
<b>Subros</b>					<b>Sales (Rs cr)</b>	<b>EPS (Rs)</b>	<b>PE(x)</b>	<b>EV/E (x)*</b>	<b>RoNW (%)</b>	<b>RoCE (%)</b>
<b>Idirect Code</b>	SUBROS	<b>CMP</b>	39	<b>FY09</b>	694.4	2.2	17.7	5.8	7.6	12.2
		<b>Target</b>	47	<b>FY10E</b>	875.6	3.9	10.0	3.9	12.1	16.5
				<b>FY11E</b>	931.0	5.6	6.9	2.8	15.5	20.9
<b>Mcap (Rs cr)</b>	234.0	<b>% Upside</b>	20.5	<b>FY12E</b>	1081.7	6.7	5.8	2.4	16.2	22.6

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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**Outperformer:** 20% or more;

**Performer:** Between 10% and 20%;

**Hold:**  $\pm 10\%$  return;

**Underperformer:** -10% or more;

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