

BUY

| | | | |
|--|------------------|------------|------------|
| Price | Rs38 | | |
| Target Price | Rs55 | | |
| Investment Period | 12 months | | |
| Stock Info | | | |
| Sector | Auto Ancillary | | |
| Market Cap (Rs cr) | 227 | | |
| Beta | 0.63 | | |
| 52 WK High / Low | 39/38 | | |
| Avg Daily Volume | 12956 | | |
| Face Value (Rs) | 2 | | |
| BSE Sensex | 17,016 | | |
| Nifty | 5,090 | | |
| BSE Code | 517168 | | |
| NSE Code | SUBROS | | |
| Reuters Code | SUBR.BO | | |
| Bloomberg Code | SUBR IN | | |
| Shareholding Pattern (%) | | | |
| Promoters | 40 | | |
| MF/Banks/Indian FIs | 7.2 | | |
| FII/ NRIs/ OCBs | 8.4 | | |
| Indian Public | 44.4 | | |
| Abs. | | | |
| | 3m | 1yr | 3yr |
| Sensex (%) | (6.3) | 22.7 | 176.5 |
| Subros (%) | (24.2) | (17.1) | 73.5 |
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Performance Highlights

- In-line Results:** For 4QFY2008, Subros clocked 2.4% growth in Net Sales to Rs187.8cr, which was largely in line with our expectation of Rs188.1cr. Sales growth came on the back of volume growth of 7.6% while average realisations declined 4.8% yoy. Subros sold 1,43,717 AC units in 4QFY2008 as against 1,33,581 sold in 3QFY2008. The company's Bottom-line, which increased 9.8% yoy to Rs8.9cr was also in line with our expectation of Rs8.7cr. Margins were however, marginally above our expectations primarily due to lower raw material costs.
- Margin improves with Raw Material costs declining:** During 4QFY2008, Subros witnessed a 115bp yoy increase in EBITDA Margins owing to lower Raw Material cost, which declined by almost 210bp yoy. Raw Material costs accounted for over 68.8% of Sales (70.9% in 4QFY2007). The decline in raw material costs was mainly due to management's concerted efforts to reduce the imported raw material costs and increase the level of localisation in components. However, Staff Costs and Other Expenditure during the quarter increased by 75bp and 20bp, respectively. The company reported a 12% yoy increase in Operating Profits to Rs24.4cr.
- Net Profit up 9.8%:** Subros reported a 9.8% jump in Net Profit wherein Net Profit Margins improved by 30bp. Higher Depreciation of Rs9.2cr (Rs8.3cr) and increase in Tax Rate by 270bp to 29.3% restricted Net Profit Margin improvement and was in line with OPM.
- FY2008 Results:** For FY2008, Subros clocked 2.4% growth in Net Sales to Rs662.7cr driven by around 8.3% yoy growth in volume while realisations declined by 5.4% yoy. The company's Bottom-line, which grew 2% yoy to Rs29cr, came in line with Sales. Operating Profit Margin for FY2008 improved by 120bp yoy to 12.6% (11.4%) following the company's efforts to reduce the imported raw material component and increase the level of localisation.

Key Financials

| Y/E March (Rs cr) | FY2007 | FY2008 | FY2009E | FY2010E |
|-------------------|--------|--------|---------|---------|
| Net Sales | 647.4 | 662.7 | 750.8 | 840.9 |
| % chg | 14.6 | 2.4 | 13.3 | 12.0 |
| Net Profit | 28.4 | 29.0 | 34.3 | 40.8 |
| % chg | 17.2 | 2.0 | 18.4 | 18.8 |
| OPM (%) | 12.4 | 12.8 | 12.7 | 12.9 |
| EPS (Rs) | 4.7 | 4.8 | 5.7 | 6.8 |
| P/E (x) | 8.0 | 7.9 | 6.6 | 5.6 |
| P/CEPS(x) | 4.1 | 3.7 | 3.4 | 3.0 |
| P/BV (x) | 18.8 | 16.9 | 17.5 | 18.2 |
| RoE (%) | 16.8 | 17.2 | 19.0 | 20.5 |
| RoCE (%) | 1.5 | 1.3 | 1.2 | 1.0 |
| EV/Sales (x) | 0.5 | 0.5 | 0.5 | 0.4 |
| EV/EBITDA (x) | 4.6 | 4.1 | 3.6 | 3.2 |

Source: Company, Angel Research

Key Highlights

- Subros is the market leader and largest player operating in the domestic car air-conditioning (AC) market. 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 by 2008 to meet additional demand going ahead. Post expansion to one million units, it is expected to meet incremental demand from its existing OEM customers and new client additions in both the passenger car and CV segments. The company is also setting up new capacities at Manesar (Haryana) and Pune.
- Going forward, we believe Subros is well-positioned to benefit from the sustained improvement in the performance of Maruti Suzuki — success of the *Swift* and *SX4* (both introduced in 2007), recent orders from Maruti for supply of compressors for its export (*A-Star*) model, and the sedan version of the *Swift - Dzire*, are pointers to this. At present, 75% contribution to the company's Revenues, are from Maruti Suzuki.
- While the company's performance has been stagnant in the last two quarters due to lower offtake from Tata Motors, prospects of increased offtake of ACs for the soon-to-be launched *Nano* from Tata Motors exists. Even if the basic model of this car is not offered with a factory-fitted AC, there is a high possibility of buyers opting for an AC variant, as the incremental cost of an AC (above the price of the basic model) may not be a significant deterrent to buyers. Hence, should such a trend materialise, it could translate into additional revenues for Subros.
- In FY2008, the company also received a Lol from M&M for the first time for supply to its *Logan* model. Besides, it 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 Margins. But, volumes are unlikely to be significant and 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 grow at a CAGR of 13% over the next two years, considering the increasing requirements of its OEM customers like Maruti, Tata Motors and potential new client wins from the passenger car and CV segments. However, though volumes are expected to increase going ahead, we expect realisations to be stable or decline marginally due to the aggressive pricing adopted by the OEMs. At the CMP of Rs38, the stock is trading at 6.6x FY2009E and 5.6x FY2010E Earnings. **We maintain a Buy on the stock, with a Target Price of Rs55.**

| Exhibit 1: 4QFY2008 Performance | | | | | | |
|--|-----------------|-----------------|--------------|---------------|---------------|--------------|
| Y/E Mar (Rs cr) | 4QFY2008 | 4QFY2007 | % chg | FY2008 | FY2007 | % chg |
| Net Sales | 187.8 | 183.3 | 2.4 | 662.7 | 647.4 | 2.4 |
| Other Income | 0.3 | 0.3 | (12.1) | 1.1 | 1.3 | (13.2) |
| Total Income | 188.0 | 183.6 | 2.4 | 663.9 | 648.7 | 2.3 |
| EBITDA | 24.4 | 21.8 | 12.3 | 83.6 | 74.1 | 12.8 |
| OPM (%) | 13.0 | 11.9 | | 12.6 | 11.4 | |
| Interest | 3.0 | 2.8 | 8.6 | 11.5 | 8.1 | 42.7 |
| Depreciation | 9.2 | 8.3 | 10.4 | 32.1 | 27.3 | 17.5 |
| Profit before Tax | 12.5 | 11.0 | 14.0 | 41.1 | 40.0 | 2.6 |
| Tax | 3.7 | 2.9 | | 12.1 | 11.6 | |
| Profit after Tax | 8.9 | 8.1 | 9.8 | 29.0 | 28.4 | 2.0 |
| EPS (Rs) | 1.5 | 1.3 | | 4.8 | 4.7 | |

Source: Company, Angel Research



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Ratings (Returns) Buy (> 15%) Accumulate (5 to 15%) Neutral (5 to -5%) Reduce (> -5%) Sell (> -15%)