

**Subros**
**CMP: Rs52**
**Buy**
**Target Price: Rs63  
(12 Months)**
**Vaishali Jajoo**
**Tel: 022 – 4040 3800 Ext: 344**
**e-mail: vaishali.jajoo@angeltrade.com**

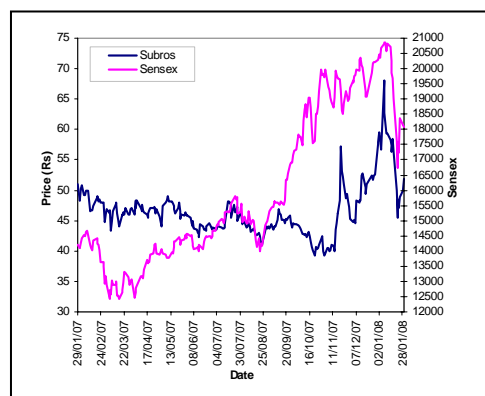
Sector	Auto Ancillary
Market Cap (Rs cr)	311
Beta	0.65
52 WK High / Low	82/36
Avg Daily Volume	18807
Face Value (Rs)	2

BSE Sensex	18,092
Nifty	5,281

BSE Code	517168
NSE Code	SUBROS
Reuters Code	SUBR.BO
Bloomberg Code	SUBR IN

**Shareholding Pattern (%)**

Promoters	40.0
MF/Banks/Indian FIs	14.6
FII/ NRIs/ OCBs	27.0
Indian Public	18.5

**Share Price Vs Sensex**

**3QFY2008 Result Update**
**Performance Highlights**

- Topline up 2%:** Subros clocked a 2% yoy increase in Topline to Rs160cr as against our expectation of 7% growth for 3QFY2008. This was mainly on account of the decline in realisations to 11% yoy. The company clocked 15% yoy growth in volumes to 1,22,768 AC units as against 1,06,798 AC units sold in 3QFY2007. Pertinently, Tata Motors' offtake declined in 3QFY2008.
- OPM up by 85bp:** Operating Margins improved to 12.9% (12%) as raw material costs declined by around 140bp. This was mainly due to management's concerted efforts to reduce imported raw material costs and increase the level of localisation in components. Other expenditure to sales ratio also declined to 12% (12.4%) during the quarter. However, Staff costs increased by 100bp during the quarter.
- Net Profit up 8%:** The company's Net Profit grew by 8% yoy to Rs7.2cr (Rs6.6cr) for 3QFY2008. On the Margins front, Net Profit Margin improved by 25bp yoy. Interest Costs increased 34% yoy to Rs3cr.
- Additional Supplies:** The company commenced supply of AC sub-systems for Maruti's *Swift* model. This far, Maruti had been importing the sub-systems, which is now being solely supplied by Subros. Supplies commenced from the fourth quarter of FY2007, which has resulted in the company's volumes spiking. 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.

**Exhibit 1: Key Financials**

Y/E Mar (Rs cr)	FY2007	FY2008E	FY2009E	FY2010E
<b>Net Sales</b>	<b>647.4</b>	<b>666.5</b>	<b>767.3</b>	<b>852.8</b>
% chg	14.6	3.0	15.1	11.1
<b>Net Profit</b>	<b>28.4</b>	<b>29.2</b>	<b>35.6</b>	<b>41.7</b>
% chg	17.2	2.8	21.6	17.2
OPM (%)	12.5	12.7	12.7	12.9
EPS (Rs)	4.7	4.9	5.9	7.0
P/E (x)	11.0	10.7	8.8	7.5
P/CEPS (x)	5.6	5.2	4.6	4.1
RoE (%)	18.8	17.0	18.1	18.4
RoCE (%)	16.8	17.5	19.5	20.8
P/BV (x)	2.1	1.8	1.6	1.4
EV/Sales (x)	0.7	0.6	0.6	0.5
EV/EBITDA (x)	5.7	5.1	4.4	3.9

*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 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 a 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 planned sedan version of the *Swift*, 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 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 for 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. Should such a trend materialise, it could translate into additional revenues for Subros.

**Outlook and Valuation**

We have conservatively estimated the company's volumes to grow at a CAGR of 14% 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 Rs52, stock trades at 8.8x FY2009E and 7.5x FY2010E Earnings. **We maintain a Buy on the stock, with a Target Price of Rs63.**

**Exhibit 2: 3QFY2008 Performance**

Y/E Mar (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
<b>Net Sales</b>	<b>160.2</b>	<b>156.7</b>	<b>2.2</b>	<b>475.0</b>	<b>464.1</b>	<b>2.3</b>
Other Income	0.3	0.4	(24.3)	0.8	1.0	(13.5)
Total Income	160.5	157.1	2.2	475.8	465.1	2.3
EBITDA	20.6	18.8	9.5	59.1	52.4	13.0
OPM (%)	12.9	12.0		12.4	11.3	
Interest	3.0	2.3	33.8	8.5	5.3	61.0
Depreciation	7.7	7.3	6.0	23.0	19.0	20.7
Profit Before tax	10.2	9.7	5.2	28.5	29.0	(1.7)
Tax	3.0	3.0		8.4	9.7	
<b>Profit After tax</b>	<b>7.2</b>	<b>6.6</b>	<b>8.3</b>	<b>20.1</b>	<b>19.4</b>	<b>4.0</b>
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.1</b>		<b>3.4</b>	<b>3.2</b>	

Source: Company, Angel Research



## Angel Broking Limited

**Research Team Tel: 4040 3800**

**E-mail: [research@angeltrade.com](mailto:research@angeltrade.com)**

**Website: [www.angeltrade.com](http://www.angeltrade.com)**

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor 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. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

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 and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of 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. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement 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.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and 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.

Sebi Registration No : INB 010996539