

**Subros Ltd.****₹ 244****Auto Air Conditions Maker...!!!****Buy**

Nov 10, 2017

**Company Background**

Subros Ltd, incorporated as Subros Pvt Ltd in February 1985, was promoted by Ramesh Suri, Lalit Suri & Jayant Nanda. It turned into a public limited company in October 1985. It manufactures and supplies compressors, Condensers, Heat Exchangers and all connecting elements required to complete AC loop and caters to all segments viz. Passenger Vehicles, Buses, Trucks, Refrigeration Transport, off- roaders and Railways, with the technology developed by its collaborators, Denso Corp (13% stake) and Suzuki Motors (13% stake), both from Japan. Denso Corporation provides technical information to implement projects & manufacture automotive air-conditioning systems including swash-plate type compressors, clutches and other associated components for cars and light commercial vehicles. In addition to providing advice in regard to the design, manufacturing and production problems it also trains to the technical personnel of Subros. Subros caters to the OEM segment with clients such as Maruti, TELCO and PAL. Company has grown from a capacity of 15,000 AC units in 1985 comprising of largely an assembly operation, into the largest and only integrated manufacturing unit in India for Auto Air Conditioning systems. Subros has manufacturing plants at Noida (2), Manesar, Pune, Chennai and Sanand with an annual capacity of 1.5 mn AC Kits p/a beside a well equipped R&D Center and Tool Room at Noida.

**Key Highlights**

- ➔ The company's Net Sales increased by 18.60% to ₹ 15494.60 mn, other income also rose by 35.8% to ₹ 33.0 mn and financial charges marginally soared by 1.2% to ₹ 422.20 mn for the March 2017.
- ➔ For Sep 2017 quarter company Net Sales were rose by 19.85% to ₹ 4971.50 mn, financial charges increase by 8.51% to ₹ 102.0 mn & finally net profit also jumped by 39.75% to ₹ 156.80 mn on QoQ basis.
- ➔ Recently, company focus on providing Air Conditioning solutions for driver cabin of Indian Railways. In this segment, the company has bagged further order from Indian Railways with an approximate value of ₹ 10 cr and this order will be executed within the current financial year.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	13,385.9	14,860.4	17,591.2
Rev. growth (%)	1.13	11.02	18.38
EBITDA (INR mn)	1,336.4	1,378.0	1,545.3
Net profit (INR mn)	203.2	240.0	140.4
Shares outstanding (mn)	60.0	60.0	60.0
EPS (INR)	3.2	3.8	2.3
EPS growth (%)	(0.61)	18.52	(39.06)
P/E (x)	17.59	22.97	90.66
RONW (%)	6.57	7.36	11.25
ROCE (%)	8.11	9.28	11.08

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**Info Codes**

Reuters	: SUBR.BO
Bloomberg	: SUBR IN
NSE	: SUBRO
BSE	: 517168

**Market Data**

52 Wk Range (₹)	: 130/291
Shares in Issue (mn)	: 60.0
Market. Cap ( bn)	: 14.65
BSE 2 Wk Avg Vol	: 30000

**Share Holding Pattern (%)**

Promoters Holding	: 40.00
Public & Others	: 53.00
Corporate Holding	: 00.00
Foreign Institution	: 00.00
Institutions	: 07.00

**Investment Theme**

Indian automotive industry occupies a dominant place, India has the distinct global advantage of producing high quality auto components at reasonably low costs. Finally, India is seen as a major sourcing hub for auto components by developed economies; and has a tremendous growth potential. Almost every global auto players have set up facilities in the country. Subros Tool Engg Center is an important contributor to the company's growth. Localization of tools has reducing investments and led time substantially. STEC has now become profitable center and receiving orders from customers. Denso Subros Thermal Engineering Services(JV), takes care of design & allied services for new models to be launched by OEM's. Company has undertaken various new projects. The growth expected in auto components will agur well for the company.

**Only integrated manufacturing unit in India for Auto ACs...!!!**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	11,971.5	13,069.0	9.2	15,494.6	18.6
Other Income	10.4	24.3	133.7	33.0	35.8
Change in Stocks	(57.5)	6.3	(111.0)	40.3	539.7
Raw Material Con.	8,083.5	8,839.8	9.4	10,709.0	21.1
Employee Exp.	1,117.1	1,262.3	13.0	1,519.2	20.4
Indirect Taxes	1,404.0	1,767.1	25.9	2,063.6	16.8
Other Exp.	(58.3)	(314.9)	440.1	(117.1)	(62.8)
Operating Exp.	10,546.3	11,554.3	9.6	14,174.7	22.7
Operating Profit	1,378.1	1,545.3	12.1	1,393.2	(9.8)
Total Interest	387.2	417.3	7.8	422.2	1.2
Gross Profit	990.9	1,128.0	13.8	971.0	(13.9)
Net Dep.	786.8	863.6	9.8	879.1	1.8
Total Taxation	0.9	24.4	2,611.1	(48.5)	(298.8)
Net Profit/Loss	203.2	240.0	18.1	140.4	(41.5)

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16	Mar 17
<b>SOURCES OF FUNDS</b>	<b>7,181.5</b>	<b>7,398.0</b>	<b>7,287.9</b>	<b>7,601.2</b>
Equity Share capital	120.0	120.0	120.0	120.0
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,898.8	3,051.4	3,233.7	3,374.0
Secured Loans	3,803.8	2,679.9	1,973.3	2,281.1
Unsecured Loans	358.9	1,546.7	1,960.9	1,826.1
<b>USES OF FUNDS</b>	<b>7,181.5</b>	<b>7,398.0</b>	<b>7,287.9</b>	<b>7,601.2</b>
Gross Block	9,628.6	10,935.0	12,082.7	11,407.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	4,796.1	5,571.8	6,451.5	6,436.2
Net Block	4,832.5	5,363.2	5,631.2	4,971.7
Capital Work in Progress	1,029.1	884.7	541.4	1,491.5
Investments	25.0	25.0	24.9	25.1
Current Assets	2,881.7	2,994.4	3,328.2	4,421.3
Less : Current Liabilities	1,831.8	2,058.6	2,426.1	3,649.5
Total Net Current Assets	1,049.9	935.8	902.1	771.8
Misc. Expenses not writtenoff	245.0	189.3	188.3	341.1
<b>NOTE</b>				
Book Value of Unquoted Investments	25.0	25.0	25.0	25.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	513.3	467.7	28.3	28.3
Dividend (%)	35.0	35.0	35.0	40.0

## Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 16	Mar 17	Jun 17	Sep 17
Net Sales	3,699.4	4,137.4	4,148.2	4,971.5
Cost Of Sales	3,389.8	3,759.0	3,714.5	4,437.0
Operating Profit	309.6	378.4	433.7	534.5
Other Income	25.4	12.2	5.6	29.2
Adjusted PBDIT	335.0	390.6	439.3	563.7
Financial Expenses	104.5	111.8	94.0	102.0
Depreciation	210.1	218.5	210.4	228.1
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	20.4	60.3	134.9	233.6
Tax Charges	(12.3)	(12.0)	29.7	82.8
Reported Profit	32.7	72.3	105.2	150.8
Extra Ordinary Items	(79.5)	(67.5)	(7.0)	(6.0)
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	112.2	139.8	112.2	156.8

## 52 Week Index Relative Percentage Appreciation



Subros vs SENSEX

## Risks Associated

- Operations of the company are directly dependent on the growth of the automotive industry and economy of India. Entry of new players and expansion plans of existing competitors has increased intensity of competition in almost all the segments of the Indian automotive market.

## Scope of Growth

- The Ministry of Road Transport and Highways has released a notification on August 08, 2017, it requires all N2 & N3 category vehicles to be equipped with air conditioning system or ventilation system with effective from January 1, 2018. In this regard, Subros Limited has acquired businesses for Blower assembly from Ashok Leyland, Swaraj Mazda Isuzu, Mahindra Truck and Bus Division and Tata Motors Limited.
- As highlighted in the Auto Mission Plan 2016-26, the passenger vehicles market is expected to triple to 9.4 mn units by 2026. And additionally by 2030, Government plans to promote eco-friendly vehicles in the country.
- Company has started business in Home AC segment by supplying condensers to OEMs. Business with Whirlpool has already been rolled out, discussions are going on with other OEMs.
- Company is developing its presence in Commercial Vehicle segment, after the notification on Truck Aircon. It is in discussions with all OEM for providing low-cost and less lead-time solutions.

## Subros

### In a Nutshell

Subros Limited, founded in 1985 as a joint venture public limited company with 40% ownership by Suri family of India and 13% ownership by Denso Corporation & Suzuki Motor Corporation each. Company is the leading manufacturer of thermal products for automotive applications in India, in technical collaboration with Denso. It deal with Compressors, Condensers, HVAC, Tubes & Hoses, Bus AC, Rail AC, Transport refrigeration system, Truck cabin ac system and OFF-ROADER AC. Company has 2 Technical Centers near Noida and 6 manufacturing units in different places in India. It operates two segments namely; passenger Vehicle and Commercial Vehicle segments. Under both the segments company have clients like; Maruti Suzuki, TATA, Mahindra, Force Motors, DENSO, DAIMLER, Renault Nissan and Ashok Leyland. Recently, company bagged an order for ₹ 10 cr to provide Air Conditioning solutions for driver cabin of Indian Railways, the order will be executed within the financial year. As per the Govt, notification all N2 & N3 category vehicles need to be equipped with air conditioning system or ventilation system from January 01, 2018. By this notification, Company has acquired businesses for Blower assembly from Ashok Leyland, Swaraj Mazda Isuzu, Mahindra Truck and Bus Division and Tata Motors Limited. And this business opportunity will add nearly ₹ 175 cr to the top line in the near future. Company's Gross Sales have increased to ₹ 17558.20 mn in 2016-17, an increase of 18.36% in sale over the previous year. Operational profit has stand at ₹ 1670.30 mn due to efficiency of operations. Management is focused on further improvement of operations and material cost in 2017-18. Overall aim of the management to further increase the operational profit margins.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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