Subros

Buy Range	**₹550 – 570**
Target	**₹670 – 690**
Recommendation	**BUY**

Highlights

- **Subros is India's only integrated manufacturing unit in India for auto air conditioning systems which manufacturers compressors, condensers, heat exchangers and all connecting elements required to complete AC loop and caters to all segments like passenger vehicles, buses, trucks, refrigeration transport, off- roaders, residential air conditioners & railways AC coaches** with manufacturing plants at Noida, Manesar, Pune, Chennai , Nalagarh and Karsanpura having annual capacity of 1.5mn AC kits beside a well-equipped R&D Center and Tool Room at Noida**. In the PV segment, the air conditioning share has reached 43% while in the truck segment share has reached 54%. The company is targeting a 45/55% market share in PVs and CVs.**
- **FY23 Revenue Mix (%) by Customers** – Maruti: M&M: Tata Motors: Home ACs: Others – 84:4:3:3:6. **Subros has 75% and 35% respectively wallet share with MSIL and M&M.FY23 Revenue Mix (%) by Segments** – PV Thermal: Engine Cooling Module (ECM):Buses: Trucks:Home ACs – 74.8:14.3:1.2:2.9:3. **In Q3FY24, Maruti Suzuki contributed 85% of total sales. PV Share has increased to 44%, Truck AC increased to 56%, and buses at 15%. The Car and non-car mix (%) stood at 94:6, the contribution of MSIL and SMG was 85% and other customers was 15%.** In 9MFY24 overall revenue 17.5bn from PV AC, Radiator/ECM –₹3.5bn, Truck/Bus –₹470mn, Aftermarket – ₹550-600mn .
- It provides it products and services to all segments like PVs, buses, trucks, refrigeration transport, off-roaders and railways. Its main clientele includes Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Force Motors, Ashok Leyland, Nissan in the automotive segment, Havells, Whirlpool and Voltas for home ACs and Indian Railways.
- Subros has a technical collaboration with Denso Corporation which has enabled the company in product development capabilities, enhance its scale of operations and lower its operating cost to sustain its strong market position over the years. **The ACs for electric vehicles has a ~2.5x higher realisation, as the compressor needs a separate drive (in gasoline vehicles, the system is powered by the engine**). As Denso is a market leader in this technology, the company is likely to benefit from any potential shift towards the same. **It has already launched the slimmest condenser and slimmest radiator in the world. The technology transfer for compressor has been completed and has enabled the company to launch new wind rotary compressor i.e. SV08, a new series of wind rotary compressor for the first time in India.** It is being upgraded to cover newer models. The fourth project with the collaboration is for the hybrid vehicle to be launched by Toyota-Maruti alliance project.
- Subros has expanded the capacity at Chennai location and commenced supplies for new Products. It has also introduced products for Hybrid & Electric Vehicle in FY22-23 and would introduce more such products in coming years. **It has achieved overall localisation level of ~84%.** It is focused on localisation and cost optimisation activities across all product segments to marginalize impact of global economic factors and continues to focus on local manufacturing to ensure sufficient capacity is available for all customers across locations in line with growing market demand across all the segments. **Currently ~15-16% content is still imported and it has plans to bring it down below 10% over the next three years** to further reduce material cost and exposure to foreign exchange fluctuation.
- For the last two years its product development for Aircon coaches for driver cabin was in process along with trails. It has received the RDSO approval and is ready for product installation which presents a **large opportunity for the company with a potential of ₹1-1.5bn revenue**. **The company has won a new order for coach Aircon of ₹280mn**.
- In a draft notification, the Ministry of Road Transport and Highways (MoRTH) has mandated the installation of air conditioning systems in the cabins of motor vehicles belonging to categories N2 and N3, from vehicles manufactured from 01Jan25. **Market opportunity of ₹4-4.5bn**. **Tata Motors offers AC cabins as an option in Intra, Yodha, Ultra, Signa and Prima**, while **Ashok Leyland has AC cabins in certain variants of AVTR, tipper and haulage trucks. Subros is at an advanced stage of negotiation with OEMs and analyzing the specification for AC system applied to such trucks. The policy was first mooted in 2017 but was later watered down to blowers only. Currently, AC fitment ratio has reached 23-25% in the CV industry.**
- Thermal products for alternate fuels e.g. Hybrid, CNG & Electric are likely to be the key business driver for the organisation**. As of now ~15% of our total revenue is coming from alternative fuel technologies wherever thermal products are being used. It has secured an order from Ashok Leyland for its Hydrogen cell CV and there is another pending order in the pipeline.**

SUBROS LTD

Company Background

SUBROS Ltd was incorporated in 1985 and promoted by Delhi based **Suri family**. Promoter holds a 36.79% stake. The two Japanese auto majors – Denso Corporation and Suzuki Motor Corporation holds a 20% and 11.96% stake, respectively in the company**. It is India's only integrated manufacturing unit in India for auto air conditioning systems which manufactures compressors, condensers, heat exchangers and all connecting elements required to complete AC loop and caters to all segments like passenger vehicles, buses, trucks, refrigeration transport, off- roaders, residential air conditioners & railways AC coaches** with manufacturing plants at Noida, Manesar, Pune, Chennai , Nalagarh and Karsanpura having annual capacity of 1.5mn AC kits beside a well-equipped R&D Center and Tool Room at Noida**. In the PV segment, the air conditioning share has reached 43% while in the truck segment share has reached 54%. The company is targeting a 45/55% market share in PVs and CVs.** The management is expecting to gain market share gain in PVs, improving mix in SUVs, and incremental revenue from CVs due to mandatory AC and new business in Railway which is likely to drive near to medium-term revenue growth. The company in Apr'19 acquired certain assets (plant & machinery) from Zamil Air Conditioners Pvt Ltd for ₹115mn for manufacturing of Home AC components which strengthened its position in Home AC where it would be supplying the entire assembled unit (indoor, outdoor & window AC) to OEMs. It would source compressor and some other parts from the 3rd party while manufacture condenser, evaporator, etc. in-house. Through this initiative, Subros Ltd created capacity of 500,000 units per year.**FY23 Revenue Mix (%) by Customers – Maruti: M&M: Tata Motors: Home ACs: Others – 84:4:3:3:6.Subros has 75% and 35% respectively wallet share with MSIL and M&M. FY23 Revenue Mix (%) by Segments – PV Thermal: Engine Cooling Module (ECM):Buses: Trucks: Home ACs – 74.8:14.3:1.2:2.9:3. In Q3FY24, Maruti Suzuki contributed 85% of total sales**. PV Share has increased to 44%, Truck AC increased to 56%, and buses at 15%**.** Car and non-car mix (%) stood at 94:6, the contribution of MSIL and SMG was 85% and other customers were at 15%. In 9MFY24 overall revenue ₹17.5bn from PV AC, Radiator/ECM - ₹3.5bn, Truck/Bus - ₹470mn, Aftermarket-₹550-600mn.

Investment Rationale

1. Reputed clients and Technical aid from Denso enabling to maintain its market share lead

Despite intense competition in the segment**, it has successfully maintained a strong market position (an estimated market share of 40-43% in the addressable product range in the PV industry),** benefitting from its integrated manufacturing operations and strong product development capabilities aided by a technical collaboration with Denso Corporation. The company also manufactures compressors, condensers, HVAC and all connecting elements required to complete the AC loop.

Source - Company, Way2Wealth

Important Data

Nifty	22,027
Sensex	72,596

Key Stock Data

CMP	₹573.5
MCAP (bn)	₹37.4
52-WHigh/Low	₹733/298
Shares o/s(mn)	65.3
Daily Vol.(3M NSE Avg.)	568,248
BSE Code	517168
NSE Code	SUBROS
Bloomberg Code	SUBR:IN

Shareholding Pattern (%) – Mar'24

Promoter	36.8
DIIs	10.0
FIIs	32.8
Public	20.4

Financials

(₹ mn)

Particulars	FY21	FY22	FY23
Revenue	**17,957**	**22,386**	**28,063**
EBITDA	**1,538**	**1,487**	**1,675**
EBITDA Margin (%)	***8.6***	***6.6***	***6.0***
Net Profit	**474**	**325**	**479**
EPS (`)	7.3	5.0	7.3
DPS (`)	0.7	0.7	1.0
RoE (%)	6.0	3.9	5.5
RoCE (%)	7.2	5.3	6.2
P/E (x)	79.0	115.1	78.1
EV/EBITDA (x)	24.1	25.0	22.4
P/BV (x)	4.7	4.5	4.3

Particulars	FY24E	FY25E	FY26E
Revenue	**30,582**	**33,445**	**37,264**
EBITDA	**2,588**	**3,316**	**3,889**
EBITDA Margin (%)	***8.5***	***9.9***	***10.4***
Net Profit	**1,001**	**1,564**	**1,883**
EPS (`)	15.3	24.0	28.9
DPS (`)	1.1	1.2	1.3
RoE (%)	10.9	15.6	16.5
RoCE (%)	11.1	15.7	16.4
P/E (x)	37.4	23.9	19.9
EV/EBITDA (x)	13.9	10.6	8.6
P/BV (x)	4.0	3.5	3.1

Source: Company, Way2Wealth

Relative Performance

Return(%)	1Yr	3Yr	5Yr
SUBROS	**88.1**	**96.9**	**103.2**
Nifty50	25.0	53.4	90.0
Sensex	21.9	51.4	87.9

Source: Company, Way2Wealth

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It provides its products and services to all segments like PVs, buses, trucks, refrigeration transport, off-roaders and railways. Its main clientele includes Maruti Suzuki, Tata Motors, Mahindra & Mahindra, Force Motors, Ashok Leyland, Nissan in the automotive segment, Havells, Whirlpool and Voltas for home ACs and Indian Railways. **Maruti Suzuki and Suzuki Motors Gujarat contribute ~85% of the total sales**. **Subros is currently supplying ~75% of the total AC requirement of Maruti.** The new launches of Maruti in the SUV segment which has seen quite a traction has enabled the company has gained market share with benefits to accrue in the coming years.

2. Experienced senior management and Execution team

Ms. Shradha Suri Marwah- MD & CEO –She is an economics graduate from Delhi University with Masters in International Marketing & Information Technology from London, UK. She joined Subros in 2000 after a short stint with Six Continents, UK and Reebok India. She has more than 11 years of experience in Automotive and Telecom industries. She is responsible for strategy formulation and deployment.

Mr. Hisashi Takeuchi –Representative of Suzuki Motor Corporation, Japan - Mr. Hisashi Takeuchi is a graduate from the Faculty of Economics, Yokohama National University, Japan. Mr. Takeuchi joined Suzuki Motor Corporation (SMC) in 1986 and started his professional journey with Overseas Marketing Department, Europe Group of SMC. He is presently the Managing Director & Chief Executive Officer of Maruti Suzuki India Limited since April, 2022.

Mr. Naohisa Kuriyama –Representative of DENSO Corporation, Japan - Mr. Naohisa Kuriyama is presently the Head of Function Unit supervising development of products in the Passenger Vehicle Thermal Systems Business Unit within the Thermal Systems Business Group of DENSO Corporation, Japan. He graduated from Yokohama National University, Japan in Faculty of Engineering in 1992 and has vast experience in research and development with specialized knowledge in the air-conditioning systems and Thermal Group in various divisions of DENSO. He has supported globally the Thermal branches for research and development in the areas like North America, Europe, China, etc.

Mr.R. Parmod Kumar Duggal –Whole-time Director designated as Chief Executive Officer ("CEO") - Mr. P.K. Duggal is a Chartered Accountant, Company Secretary & Cost and Management Accountant. He has around 29 years' experience in area of Marketing, Finance, Corporate & Strategic Planning, Cost Management and Joint Venture Management. He has been associated with Subros Limited for past 18 years. He is also a member of the Strategic Executive Committee (SEC) for formulation of long-term strategy for the Company.

Mr. YP Negi – COO ; **Mr. A Parasar –**EVP Operations, STEC & Service.

3. Vehicular demand to be the main growth driver in coming years

The Indian automobile industry has historically been a good indicator of how well the economy is doing, as the automobile sector plays a key role in both macroeconomic expansion and technological advancement. The two-wheelers segment dominates the market in terms of volume, owing to a growing middle class and a huge percentage of India's population being young. Moreover, the growing interest of companies in exploring the rural markets further aided the growth of the sector. The rising logistics and passenger transportation industries are driving up demand for commercial vehicles. Future market growth is anticipated to be fuelled by new trends including the electrification of vehicles, particularly three-wheelers and small passenger automobiles. India enjoys a strong position in the global heavy vehicles market as it is the largest tractor producer, second-largest bus manufacturer, and third-largest heavy truck manufacturer in the world. As per ICRA, automobile industry reported modest growth (8.5-9%) in FY24 on the back of strong volumes in FY23. The passenger vehicle segment reached all-time high-volume levels in FY23 on the back of demand for personal mobility and stable semiconductor supplies and is forecasted to grow 6-9% YoY in FY25. Similarly, the commercial vehicle industry also saw robust growth in FY23, grew only 4.3% YoY in FY24 and is estimated to decline by 4-7% in volumes.

Automakers are estimated to have sold a total of 4.23mn, passenger vehicles in FY24, against 3.89mn units YoY, as per the estimates from India's top car makers Maruti Suzuki and Hyundai Motor India. **Leader in the PV market Maruti Suzuki India Limited (MSIL) saw a 15% increase in sales in Mar'24, reaching 152,718 units, compared to 132,763 units in Mar'23. MSIL's overall sales for the FY24 was at 1,606,870 units (of PVs), a 9.5% increase over FY23.** For **Tata Motors**, **sales of passenger cars, including electric cars (EVs), in the domestic market were up 14% to 50,297 in Mar'24 from 44,225 YoY**. **Wholesale sales increased by 6% to 573,495 units (**compared to FY23), while retail sales increased by roughly 10%.**M&M ended FY24 with its best-ever sales: 459,877 units. This constitutes strong 28% YoY growth (FY23: 359,253 units) with the company selling an additional 100,624 units in FY24. The rapid rate of demand for most of its SUVs meant that M&M has doubled its FY22 sales of 225,895 units in just two years. In the PV segment, the air conditioning share has reached 43% while in the truck segment share has reached 54%. The company is targeting a 45/55% market share in PVs and CVs.**

Manufacturers (units)	FY23	FY24	YoY (%)
Maruti Suzuki India	16,06,870	17,59,881	9.5
Hyundai Motor India	5,67,546	6,14,721	8.3
Tata Motors	5,38,640	5,70,955	6
M&M	3,59,253	4,59,877	28
Toyota Kirloskar Motor	1,73,245	2,44,940	41.4
Honda Cars India	84,726	86,584	2.2
MG Motor India	48,866	45,471	(6.9)
Total PV Wholesales	**33,79,146**	**37,82,429**	**11.9**

Source - SIAM, Way2Wealth

4. Collaboration with Denso strengthens product development capabilities

Subros has a technical collaboration with Denso Corporation which has enabled the company in product development capabilities, enhance its scale of operations and lower its operating cost to sustain a strong market position over the years. **The ACs for electric vehicles has a ~2.5x higher realisation, as the compressor needs a separate drive (in gasoline vehicles, the system is powered by the engine**). As Denso is a market leader in this technology, the company is likely to benefit from any potential shift towards the same. **It has already launched slimmest condenser and slimmest radiator in the world. The technology transfer for compressor has been completed and has enabled the company to launch new wind rotary compressor i.e. SV08, a new series of wind rotary compressor for the first time in India.** It is being upgraded to cover newer models. The fourth project with the collaboration is for the hybrid vehicle to be launched by Toyota-Maruti alliance project.

5. Management intends to reduce imports by further increasing localisation

Subros has expanded the capacity at Chennai location and commenced supplies for new Products. It has also introduced products for Hybrid & Electric Vehicle in FY22-23 and would introduce more such products in coming years. **It has achieved overall localisation level of ~84%.** It is focused on localisation and cost optimisation activities across all product segments to marginalize impact of global economic factors and continues to focus on local manufacturing to ensure sufficient capacity is available for all customers across locations in line with growing market demand across all the segments. **Currently ~15-16% content is still imported and has plans to bring it down below 10% over the next three years** to further reduce material cost and exposure to foreign exchange fluctuation.

6. Received approval from Indian Railways to supply coach air conditioners

For the last two years its product development for Aircon coaches for driver cabin was in process along with trails. It has received the RDSO approval and is ready for product installation which presents a **large opportunity for the company with a potential of ₹1-1.5bn revenue. The company has won a new order for coach Aircon of ₹280mn.** Railway business works on a tender business. A few tenders are likely to be confirmed in

Q4FY24/Q1FY25. The company is targeting to reach 30% of the total market share of Aircon coaches with renewed focus Vande Bharat and Amrit Bharat new services to be launched as part of the Railways' plans to upgrade the network, trains running on identified routes at a speed of 130 kmph or above on the railway network which will have only air-conditioned coaches in the near future and is in line with company's strategic direction to expand business in Railway Electric Mobility Segment.

Railway coach air conditioning is a large opportunity for the company with a potential of ₹1-1.5bn revenue

Railway Segment Drivers

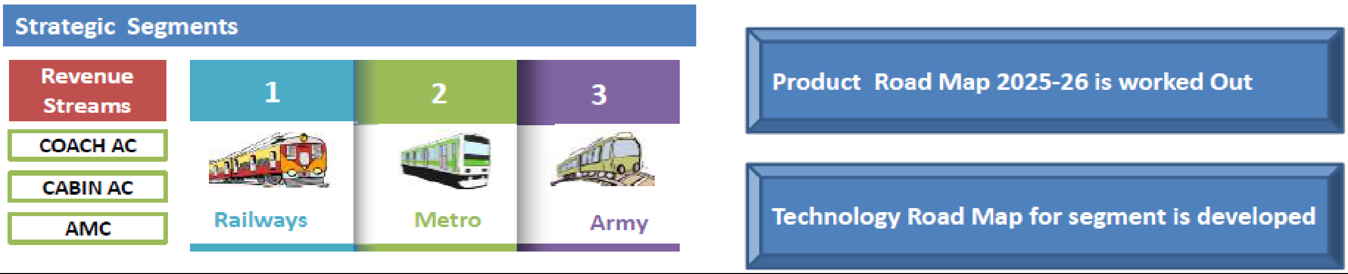
Market in 4 years : ~3,500 AC Rail coaches annually
: ~2000 AC Driver Cabin annually
: ~Market Potential of Approx 800 Cr/Yr

1. Increasing Urbanisation and Rising Income (Both Urban and Rural)
2. FDI inflows in railway-related components stood at US$ 1.229 billion from April 2000-September 2022
3. Government has allowed 100% FDI in the railway sector.
4. Rail infrastructure will see an investment of Rs 50 lakh crore (US$ 715.41 billion) by 2030
5. Urban Mass Transportation and high speed trains

Metro Segment Drivers

Market in 4 years: ~1000 Metro coaches annually
- AC Market Potential is approx 300 Cr/Yr

1. Increasing Urbanization and Investment for the development of urban transit system by Governments are the key drivers for the growth of rapid transit system Globally
2. Growing Traffic Congestion , Increasing Population and high Pollution levels are increasing demand for Metro Segments
3. Development of the light rail transit (LRT) system is also expected to create new demand for rolling stock



Source- Company, Way2Wealth

The Aircon coaches is a high margin business and RDSO approval to supply Subros' coaches provides significant jump in revenues and profits in the medium to long term.

7. Market opportunity of ₹4-4.5bn with mandatory Air-conditioned cabin in trucks

In a draft notification, The Ministry of Road Transport and Highways (MoRTH) has mandated the installation of air conditioning systems in the cabins of motor vehicles belonging to categories N2 and N3, from vehicles manufactured from 01Jan25 **presenting a market opportunity of ₹4-4.5bn. Tata Motors offers AC cabins as an option in Intra, Yodha, Ultra, Signa and Prima, while Ashok Leyland has AC cabins in certain variants of AVTR, tipper and haulage trucks. Trucks are classified into three categories based on their Gross Vehicle Weight (GVW).** N1 trucks have a GVW of 3.5 tonnes or less, N2 trucks have a GVW of 3.5 to 7.5 tonnes, and N3 trucks have a GVW of 7.5 tonnes or more**.** Subros is at an advanced stage of negotiation with OEMs and analysing the specification for AC system applied to such trucks. The policy was first mooted in 2017 but was later watered down to blowers only. According to the management, the ministry is quite firm on implementation this time. **Currently, AC fitment ratio has reached to 23-25% in CV industry**.

8. Plans for Hybrid, CNG, Electric and Hydrogen Fuel cell vehicles in place

On the EV side, the company plans to launch a new compressor within the next 2-3 quarters, specifically for the Indian markets. Subros is closing working with its base OEMs for alternate fuel-based vehicle development**. Thermal products for alternate fuels e.g. Hybrid, CNG & Electric are likely to be the key business driver for the organisation. As of now ~15% of our total revenue is coming from alternative fuel technologies wherever thermal products are being used. Its products for EV buses are in final phase of approvals from OEMs. It has secured an order from Ashok Leyland for its Hydrogen cell CV, and there is another pending order in the pipeline. EV side and Hybrid side - the radiator, a special pipe and hose line is being launched also the compressor which will be used only for the Indian market which will be launched within the next 2-3 quarters.** As fleet operators move towards EV buses, there is huge potential for the company. **EV buses require a special**

type of kit which is also developed, with OEM approvals awaited. Content per EV bus is ~0.5-1 lakh higher as compared to ICE bus. Content per product: Hose pipe for the EV engine is 2x than that of ICE. The compressor for EV is 4-5x than ICE.

9. Increased penetration of Room AC sales in urban India households

Easy access to consumer finance has provided a much-needed boost to this category and will continue to do so in the future. Rural demand is expected to pick up in the coming years on the back of stability in the overall macroeconomic environment, including the tapering of inflation and higher consumer confidence. The room air conditioner industry has significant growth potential considering its low penetration of 7-9% of total urban Indian households. According to ICRA, the RAC industry volumes is likely to have grown by 15-20% in FY24, following a strong growth of 26-28% in FY23. This growth is due in part to the government's Production Linked Incentive (PLI) scheme, which has received a positive response from both global and domestic RAC companies. These companies have committed a capital outlay of ₹48.06bn which will help to reduce imports and support industry margins through backward integration.

The Indian room air conditioner market is likely to reach US$ 6.73bn by FY28 with a compound annual growth rate (CAGR) of 14.5%, according to Voltas, an industry leader in the segment which achieved the landmark of highest ever AC sales in FY24. Voltas achieved over 2mn AC units in FY24, the highest ever sale of ACs by any brand in a financial year in India, with a volume growth of 35%. Anticipation of 20.8% increase in the AC usage in 2024 due to India Meteorological Department (IMD) in its seasonal weather release on 01Mar24 forecasted for the hot weather season from Mar-May'24, predicting above-normal maximum temperatures for most parts of the country. The above-normal number of heat wave days is likely over most parts of the country except northeast India, the western Himalayan region, the southwest peninsula and the west coast. The weather department also highlighted an increased number of heat wave days likely for the majority of the country, especially in Rajasthan, Gujarat, Haryana, Punjab, Madhya Pradesh, Maharashtra, Uttar Pradesh, Bihar, Jharkhand, West Bengal, Odisha, Chhattisgarh, Telangana, Andhra Pradesh, Karnataka, and some parts of Tamil Nadu. More heat wave days than normal are predicted over northeast peninsular India -- Telangana, Andhra Pradesh and north interior Karnataka -- and many parts of Maharashtra and Odisha during the period. This comes with El Nino conditions that are set to persist till May'24. Air conditioners continue to see strong demand traction with south leading the summer demand followed by west and East. North has just seen start of the summer with temperature increasing resulting in demand pick up. Volume growth has been in the range of 16%-18% volumes have been largely driven by modern trade. Brands are also offering attractive EMI schemes to lure consumers. Brands that have been doing well is Voltas, Blue star and Daikin. LG has been losing a bit blue star is doing well on back of strong demand from the South. Dealers expect Q1FY25 sales to remain strong.

Subros in Apr'19 acquired certain assets (plant & machinery) from Zamil Air Conditioners Pvt Ltd for ₹115mn for manufacturing of home AC components. This has strengthened Subros position in Home AC where it would be supplying the entire assembled unit (indoor, outdoor & window AC) to OEMs. It would source compressor and some other parts from the 3rd party while manufacture condenser, evaporator, etc. in-house. Through this initiative, Subros Ltd created capacity of 500,000 units per year **but due to price escalations has constrained itself in the home AC segment. The company is not aggressively pushing the products as margins are lower in this segment owing to higher commodity prices and** non-**pass-on agreements with customers.** Even then it has garnered ₹13mn of sales and is watchful about 2024 – Summer.

10. Targeting double digit margin in FY25

The company is taking several measures like reduction in material cost, container cost and plant optimization, along with reduction in logistic cost. Management plans to increase localisation by decreasing its import dependency (up to 10%). Furthermore, the shift towards EVs is anticipated to boost the content per vehicle, thereby strengthening the company's margin position. Further commodity cost and operating leverage would be positive from a margin perspective. The company is targeting a double-digit margin in FY25.

Q3FY24 Performance

Subros printed a decent set of numbers in Q3FY24. Revenue de-grew 9.9% QoQ while grew ~12% YoY to ₹7.3bn due to fall in production in PVs. EBITDA declined 15.2% QoQ (+77.3% YoY) to ₹595.6mn. Despite negative operating leverage the company was able maintain EBITDA margin above 8% due to expansion in gross margin. Management expresses its confidence to attain a double-digit margin in FY25. The Operating Margin improved to 8.1% due to the softening of FX, commodity prices, Import logistics cost, Product mix & Cost reduction efforts. Employee Costs were higher due to salary revision, hiring, and increased volumes. The company is trying to tackle commodity fluctuation through a back-to-back arrangement with the Customer Market. Operational efficiency is expected to rise through the Automation of critical processes, and digitization to reduce dependency on humans. The company has negligible imports from Europe as they import from China and Korea, Red Sea issue could affect OEMs. Expect the margin to improve further led by 1) The Company settles up claims with customers that were not part of their indexation and 2) Aggressive action to close down the project which has led to better EBITDA margins. The company is trying to break the 9% EBITDA margin levels. **PAT grew to ₹268.6mn from ₹82.6mn YoY while remained flat QoQ.** Other income was lower during the quarter due to the reinstatement of foreign currency liability/forward cover. Finance cost is higher due to the shift of early payment to the normal credit cycle.

In the PV segment, the company outperformed industry growth due to model mix (12% growth in Q3FY24 v/s industry growth of 5%). Maruti Suzuki contributed 85% of total sales. PV Share has increased to 44%, Truck AC increased to 56%, and buses at 15%. The company is looking to increase the SOB with M&M (now SOB is 24% and targeting 30%, won business for M&M EVs for PVs and Mahindra Pick up). The revenue growth was on the back of an increase in volume and the start of Production (SOP) of the new business (OJA in tractor segment). The company growth was in line with industry growth. Going ahead, business expansion across segments (Bus, Railways, Truck AC, Home AC, and Refrigeration Trucks) is expected to take the business to new heights. 3Q CV revenue was in line with industry growth, the industry grew at 17% while Subros grew at 15%. Home AC business revenue was only ₹10mn Car and Non car business mix stood at 94% and 6% respectively.

In 9MFY24 overall revenue ₹17.5bn from PV AC, ₹3.5bn –Radiator/ECM, truck/bus- ₹470 mn, aftermarket - ₹550-600mn.

In the PV segment, the air conditioning share has reached 43%. The truck segment has reached 54%. The company is targeting a 45/55% market share in PVs and CVs. Expect market share gain in PVs, improving mix in SUVs, and incremental revenue from CVs due to mandatory AC and new business in Railway to drive near to medium-term revenue growth . Increase in market share in SUV by MSIL, new business from M&M and other OEMs would be key catalysts for Subros PVs AC growth. Government's recent announcement to make ACs mandatory in CVs from Jan'25 will create a market opportunity for ₹4-4.5bn from FY26.

Capex for FY25 to be ₹1-1.4bn inclusive of maintenance and product development. Any additional investment for EV Business would be done as per the requirement.

Particulars (₹ mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	**7,324.8**	**6,546.0**	**11.9**	**8,133.7**	**(9.9)**	**22,390.6**	**20,581.7**	**8.8**
Cost of Matl	5,426.6	5,062.9	7.2	6,057.3	(10.4)	16,746.2	15,768.7	6.2
Inventories Changes	(62.4)	(76.9)	18.9	(11.0)	(467.3)	(163.4)	(38.2)	(327.7)
Employee Exps	709.9	603.4	17.6	720.6	(1.5)	2,103.9	1,876.6	12.1
Other Exps	655.1	620.6	5.6	664.5	(1.4)	1,933.2	1,809.4	6.8
EBITDA	**595.6**	**336.0**	**77.3**	**702.3**	**(15.2)**	**1,770.7**	**1,165.2**	**52.0**
EBITDA Margin (%)	***8.1***	***5.1***	***300***	***8.6***	***(50)***	***7.9***	***5.7***	***225***
Other Income	65.9	84.0	(21.5)	27.1	143.2	108.2	146.0	(25.9)
Finance Cost	38.2	15.9	140.3	25.4	50.4	79.5	46.9	69.5
Depreciation	283.7	281.9	0.6	288.7	(1.7)	846.7	823.8	2.8
PBT	339.6	122.2	177.9	415.3	(18.2)	952.7	440.5	116.3
JVs Profit/ (Loss)	0.7	0.7	-	1.6	(56.3)	3.3	4.8	(31.3)
Tax	71.7	40.3	77.9	149.3	(52.0)	284.2	148.8	91.0
Net Profit	**268.6**	**82.6**	**225.2**	**267.6**	**0.4**	**671.8**	**296.5**	**126.6**
EPS (₹)	4.1	1.3	225.2	4.1	0.4	10.3	4.5	126.6

As % to Sales	Q3FY24	Q3FY23	YoY (bps)	Q2FY24	QoQ (bps)	9MFY24	9MFY23	YoY (bps)
Raw Matl Cost	73.2	76.2	(294)	74.3	(110)	74.1	76.4	(237)
Gross Profit	26.8	23.8	294	25.7	110	25.9	23.6	237
Employee Exps	9.7	9.2	47	8.9	83	9.4	9.1	28
Other Exps	8.9	9.5	(54)	8.2	77	8.6	8.8	(16)

Source- Company, Way2Wealth

KEY RISKS

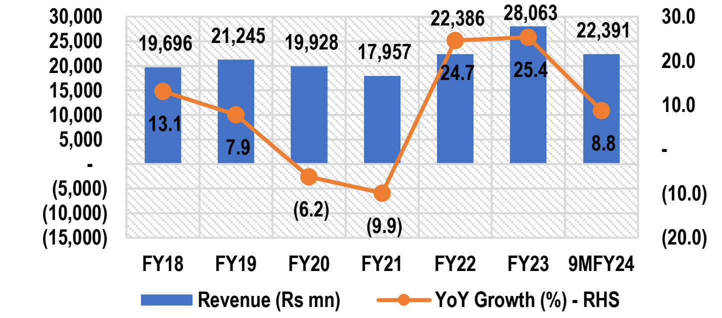
- Any future economic slowdown is likely to impact car sales and in turn the demand for Subros' products.
- Slowdown in sales of Maruti vehicles could hurt its revenues significantly as it obtains ¾ of total revenues. The management remains focussed on reducing its segment and client concentration risk through business gains from new segments, such as CVs, home ACs and the railways and new clients.
- Fluctuation in commodity price in global market affects directly and indirectly the price of raw material and components used by Subros in its various products segment.
- Subros imports ~15-16% of its raw materials and fluctuations in currency could impact future earnings.
- Any future downtrend in PV growth cycle, delay in execution of projects at client's end and inability to sustain the recovery in EBITDA margin can impact earnings.

VIEW

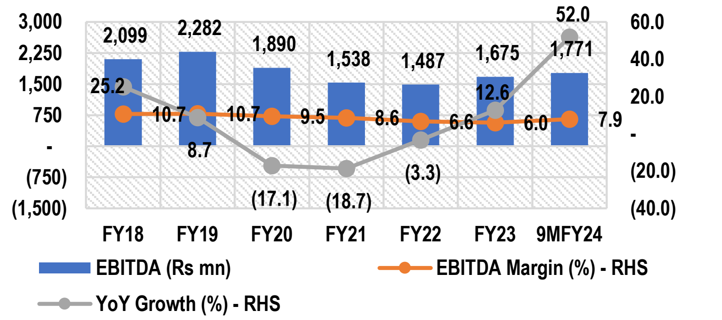
Subros Limited which was initially focused on providing cooling solutions for the PV segment, over the years has gradually expanded its product portfolio to include thermal systems for homes, bus cabins, truck cabins, railway coaches and driver cabins. The Government notification making it mandatory to install air-conditioned cabins for high tonnage trucks from Jan 1, 2025 could provide a strong boost to the company's revenue. It is also gearing up for meeting future customer demands in-line with Govt. regulations with strong focus on long term technology development. New product development for Inter combustion engine & EV for Passenger vehicles, Bus, Truck, Off-road are in progress for various OEM Models in line with company's project milestones. On the EV side, the company plans to launch a new compressor within the next 2-3 quarters, specifically for the Indian markets. New Projects for Rail Cab AC & Coach AC are also under execution with new orders expected in the near future. The long-term growth prospects for the Company's product remains robust with passenger vehicle industry production likely to touch 7mn vehicles by 2030. The BEV/Hybrid/CNG (alternate fuel) vehicle penetration is expected to increase in coming years due to Govt. push through various regulations & schemes and also increase in customer acceptability for clean or alternate fuel vehicles. The Company is focused to develop segments like Bus AC and EV AC kits. The penetration of RAC is low in India and bound to increase with easy availability of finance and improving lifestyle. Subros' acquisition of Zamil in 2019 has given it an entry in RAC which is expected to grow at a fast pace. Increased local content in manufacturing could lead to significant cost reduction and margin expansion. Technical collaboration with Denso has helped the company in R&D and developing new products. Revenue outlook remains positive fueled by strong order backlog in PVs and increasing product mix for EV segment. The company is also looking to boost its share of business from M&M (from 24% to 30%). Hence, we recommend it as a **BUY** stock with **target range ₹670-690** trading at **P/E 19.9x FY26E EPS ₹28.9.**

PAST PERFORMANCE

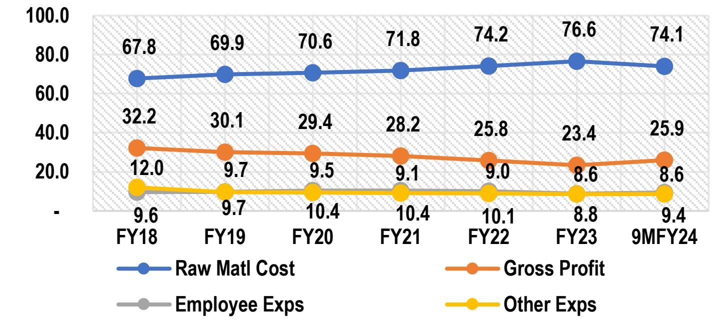
Revenue 7.3% CAGR FY18-23



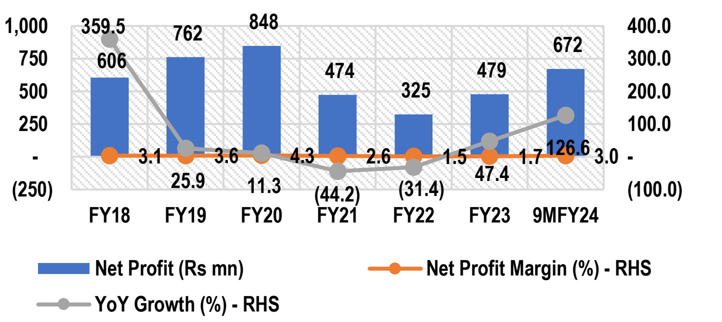
EBITDA -4.4% CAGR FY18-23



Cost as % to Sales



PAT -4.6% CAGR FY19-23



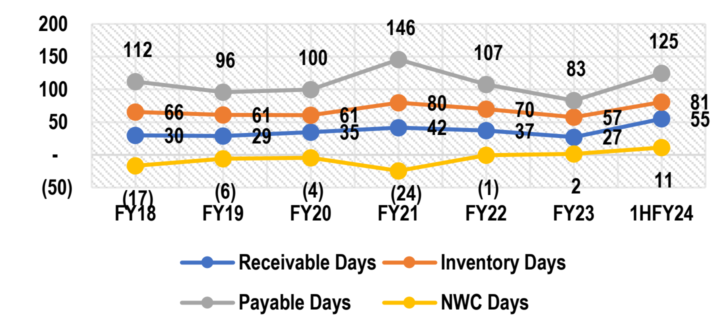
Source: Company, Way2Wealth

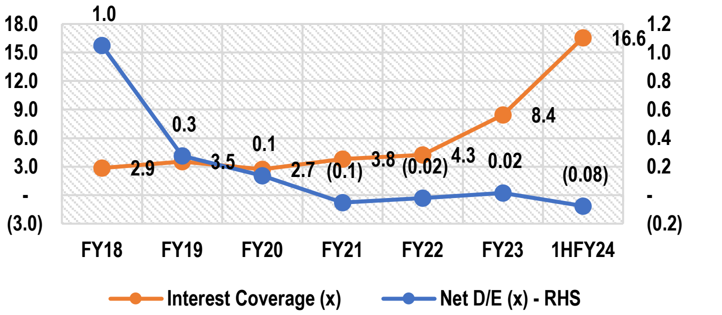
Segmental Revenue Mix (₹ mn)

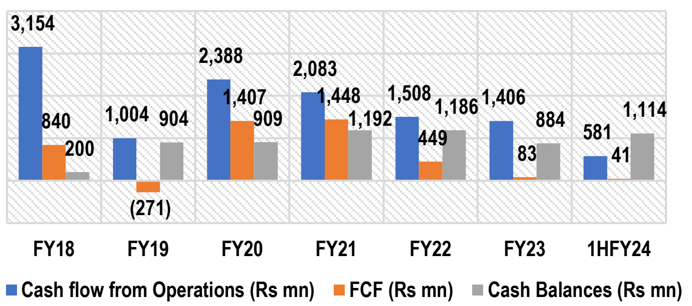
Particulars	FY20	FY21	FY22	FY23
Revenue from AC Supply in PV	15,544	13,758	17,088	21,853
Revenue from other new Verticals	4,241	4,200	5,297	6,210
CV & buses	*800*	*700*	*900*	*1,150*
Radiator/ECM	*2,391*	*2,450*	*2,989*	*4,000*
Home AC	*930*	*880*	*1,258*	*840*
Trans. refrigeration	*100*	*100*	*50*	*70*
Railways	*20*	*50*	*100*	*150*
Other Operating income	*143*	-	-	-

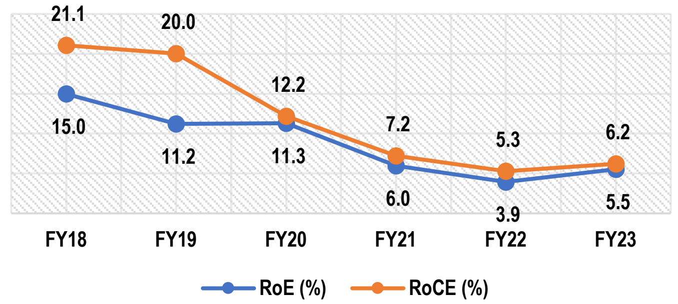
Source: Company, Way2Wealth

Stable W.C Management & Negligible debt enabling strong cash flows and return ratios









Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue from AC Supply in PV	-	-	15,544	13,758	17,088	21,853	24,884	26,927	28,834
Revenue from other new Verticals	-	-	4,241	4,200	5,297	6,210	5,698	6,518	8,430
CV & buses	-	-	*800*	*700*	*900*	*1,150*	*1,211*	*1,478*	*2,933*
Radiator/ECM	-	-	*2,391*	*2,450*	*2,989*	*4,000*	*4,231*	*4,595*	*4,958*
Home AC	-	-	*930*	*880*	*1,258*	*840*	*48*	*155*	*189*
Trans. refrigeration	-	-	*100*	*100*	*50*	*70*	*86*	*90*	*90*
Railways	-	-	*20*	*50*	*100*	*150*	*122*	*200*	*260*
Other Operating income	-	-	*143*	-	-	-	-	-	-
Revenue	**19,696**	**21,245**	**19,928**	**17,957**	**22,386**	**28,063**	**30,582**	**33,445**	**37,264**
EBITDA	2,099	2,282	1,890	1,538	1,487	1,675	2,588	3,316	3,889
EBITDA Margin (%)	*10.7*	*10.7*	*9.5*	*8.6*	*6.6*	*6.0*	*8.5*	*9.9*	*10.4*
PAT	606	762	848	474	325	479	1,001	1,564	1,883
EPS (₹)	9.3	11.7	13.0	7.3	5.0	7.3	15.3	24.0	28.9
DPS (₹)	1.1	1.3	0.8	0.7	0.7	1.0	1.1	1.2	1.3
RoE (%)	15.0	11.2	11.3	6.0	3.9	5.5	10.9	15.6	16.5
RoCE (%)	21.1	20.0	12.2	7.2	5.3	6.2	11.1	15.7	16.4
Cash Balances	200	904	909	1,192	1,186	884	1,592	2,951	4,998
FCF	840	(271)	1,407	1,448	449	83	1,052	1,758	2,482
Receivable Days	30	29	35	42	37	27	35	38	36
Inventory Days	66	61	61	80	70	57	56	53	51
Payable Days	112	96	100	146	107	83	80	78	75
Net Debt/ Equity (x)	1.0	0.3	0.1	(0.1)	(0.0)	0.02	0.0	0.0	0.0
P/E (x)	61.8	49.1	44.1	79.0	115.1	78.1	37.4	23.9	19.9
EV/EBITDA (x)	19.8	17.2	20.3	24.1	25.0	22.4	13.9	10.6	8.6
P/BV (x)	9.3	5.5	5.0	4.7	4.5	4.3	4.0	3.5	3.1
PEG	0.2	1.9	3.9	(1.8)	(3.7)	1.6	0.3	0.4	1.0

Source: Company, Way2Wealth

SUBROS LTD

Auto Ancillaries | CMP : ₹573.5 | MCAP : ₹37.4bn | BUY | 19th April 2024

TECHNICAL VIEW

Weekly Chart

SUBROS has described buying depth between 483 and 503 after witnessing profit booking from all-time high of 733.75. In the process, the stock closed above its recent trading range on the back of marginally safe volumes, which augurs well for the uptrend to continue. The stock has violated its multiple resistance levels in monthly chart, leading to breakout from head & shoulder pattern on the monthly chart and closed above the neckline resistance levels of 430-444. This means buying momentum in the stock. Technical indicators are giving positive signals as the stock is trading above the 20 and 50-day SMA. Momentum readings like the 14-day RSI too are in rising mode and not overbought, which implies potential for further upsides. Technically, SUBROS has immediate resistance at 632/638 levels. A move above 638 could lead to a fresh directional move in the same direction and it could test 680 and 740 levels in short to medium term. The support levels for SUBROS can be seen at 503 and 473.

Technical Indicators/Overlays

Bollinger Bands (Upper - Lower)	666 & 444
Short Term - 20 & 50 Days EMA	442 & 363
Long Term - 100 & 200 Days EMA	291 & 207
Volatility	2.12
ADX	26.88
MACD	66.1
RSI	63.21
Average True Range(ATR)	129.97
AD Line	2.04 cr
Standard Deviation	111.02
Pivot Levels - R1, R2	596 & 626
Pivot Point	556
Pivot Levels - S1, S2	526 & 486
ROC (%)	12.64

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Disclosure of Interest Statement: SUBROS LTD. as on 19th April 2024

Name of the Security	SUBROS LTD.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained. Financial Interest Analyst : Analyst's Relative : Yes / No Analyst's Associate/Firm : Yes/No	NIL No Yes (10 Nos, 09Jul21) No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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