

Date	Report / Update	Report Price (₹)	Buy Range (₹)	Target Price (₹)
19-May-24	Quick Insight	573.5	550 – 570	670 – 690

Target ₹670 – 690 (Achieved Price of ₹685.3 on 23May24)

Recommendation BUY

Highlights

- Subros Revenue in Q4FY24 grew 11.1% YoY and 13.5% QoQ to ₹8.31bn enabled by strong PV demand also various Infra projects enabled CV growth. Increase in Bus industry production by 37% YoY enabled the company to grow its revenue in this segment by 43% YoY. Reduction in Raw material cost as per cent to sales from 77.2% to 73.2% YoY enabled EBITDA growth of 51.3% YoY and 29.5% QoQ to ₹771.4mn along with EBITDA margin growth by 246 bps YoY and 115 bps QoQ to 9.3%. Net profit grew 66.5% YoY and 13.3% QoQ to ₹304.3mn. Declared dividend of ₹1.8 per share (F.V. ₹2/-).
- FY24 -Revenue/EBITDA/PAT grew 9.4%/51.8%/2x YoY to ₹30.71bn/₹2.54bn/₹976.1mn with EBITDA margin at 8.3%, a growth of 231bps YoY.
- Cost corrections, Localisation efforts and operational efficiency enabled margin improvement and is likely to sustain as per the management. Current levels of Localisation at 83% with target to take to +90% in the next 3-4 yrs. The uncertainty due to Red sea and macro environment due to geo-politics likely to persist.
- In the Home AC segment, as per the management, the market is not very positive to compensate for the cost escalation, hence the company is going slow in this segment, being watchful of market softening and price pressures coming out, aggressively pushing their sales efforts post this. The company is being watchful on the Home AC segment due to muted performance on cost escalation fronts and challenging market conditions.
- Subros AC products has market share of 43% in PV, 54% in Trucks and 17% in Buses. The company has tied up business on alternative fuel thermal products which includes CNG, hybrid, electric and other green mobility which contributes ~17% currently, and in the future, it should contribute around 20% of the total revenue. 24% of Subros business is secured from M&M.
- Government's recent announcement to make mandatory ACs in CVs from Oct'25 will create a market opportunity for ₹4-4.55bn from FY26. This change will directly benefit the company by increasing AC penetration from existing 25% to 100%.
- EV project with M&M at final stages and SOP with Maruti to be finalised in the Q1/Q2FY25. Work in progress for Tractor ECM & HVAC with M&M and to export products (Oja M Star) to the USA and Japan markets in near future. SOP for M&M Pick-up trucks products to be finalised in Q1FY25. Truck Aircon margins similar to PV AC margins.
- Delivery of Aircon for Rail coaches likely to be during Q1FY25 as per the management. Factors fueling the growth in the rail segment include increasing urbanisation, rising incomes (both urban and rural), and a rising AC penetration in coaches, surpassing 30% of total coach production.
- The company is the currently present at the entire EV value chain of Aircon starting from HVAC, Condensor, Radiator, Hosen pipe and finally to Compressor. Talks with few customers for AC EV Buses are at conclusion stages.
- Management indicated that Subros has already developed Electric compressors for EV Bus ACs which can increase content per vehicle by ~1.5x to ~₹140k. E-compressors for electric PVs can significantly increase the content per vehicle by 2.0x which is positive from a long term perspective. The EV penetration within the PV industry is expected to reach ~30% by 2030.

Q4FY24 Result Highlights

- **Robust Q4FY24 performance enabled by increase in customer demand** – Revenue in Q4FY24 grew 11.1% YoY and 13.5% QoQ to ₹8.31bn enabled by strong PV demand also various Infra projects enabled CV growth. Increase in Bus industry production by 37% YoY enabled the company to grow its revenue in this segment by 43% YoY. Reduction in Raw material cost as per cent to sales from 77.2% to 73.2% YoY enabled EBITDA growth of 51.3% YoY and 29.5% QoQ to ₹771.4mn along with EBITDA margin growth by 246 bps YoY and 115 bps QoQ to 9.3%. Net profit grew 66.5% YoY and 13.3% QoQ to ₹304.3mn. Declared dividend of ₹1.8 per share (F.V. ₹2/-).
- FY24 -Revenue/EBITDA/PAT grew 9.4%/51.8%/2x YoY to ₹30.71bn/₹2.54bn/₹976.1mn with EBITDA margin at 8.3%, a growth of 231bps YoY.
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- Government's recent announcement to make mandatory ACs in CVs from Oct'25 will create a market opportunity for ₹4-4.55bn from FY26. This change will directly benefit the company by increasing AC penetration from existing 25% to 100%.
- EV project with M&M at final stages with SOP with Maruti to be finalised in the Q1/Q2FY25. Work in progress for Tractor ECM & HVAC with M&M and to export products (Oja M Star) to the USA and Japan markets in near future. SOP for M&M Pick-up trucks products to be finalised in Q1FY25. Truck Aircon margins similar to PV AC margins.
- Delivery of Aircon for Rail coaches likely to be during Q1FY25 as per the management. Factors fuelling the growth in the rail segment include increasing urbanisation, rising incomes (both urban and rural), and a rising AC penetration in coaches, surpassing 30% of total coach production.
- Opportunities lie in AC for driver cabins, coaches, and After Market Services (AMC) as significant revenue streams. Initiatives involve commencing supplies for coach AC, engaging in new business conversions, and expanding into the Metro segment. The target is to achieve an annual revenue exceeding ₹0.75bn within the next three-four years from the Rail segment (from current levels of ₹50mn). Management expects the addressable market size of ₹8.35bn by FY30. Besides, this segment offers highest margins in the ~15-20% bracket.
- The company is the currently present at the entire EV value chain of Aircon starting from HVAC, Condensor, Radiator, Hosen pipe and finally to Compressor. Talks with few customers for AC EV Buses are at conclusion stages.
- Management indicated that Subros has already developed Electric compressors for EV Bus ACs which can increase content per vehicle by ~1.5x to ~₹140k. E-compressors for electric PVs can significantly increase the content per vehicle by 2.0x which is positive from a long term perspective. The EV penetration within the PV industry is expected to reach ~30% by 2030. However, localisation of EV compressor technology is still in the feasibility study stage due to the large investment and uncertain market ramp-up. The management focus continues to be on new business, product development enabled by enhanced technologies to have a varied product portfolio.
- 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.

Important Data

Nifty	22,766
Sensex	74,748

Key Stock Data

CMP	₹596.5
MCAP (bn)	₹38.9
52-WHigh/Low	₹733/320
Shares o/s(mn)	65.3
Daily Vol.(3MNSEAvg.)	390,459
BSE Code	517168
NSE Code	SUBROS
Bloomberg Code	SUBR:IN

Shareholding Pattern (%) – Mar'24

Promoter	36.8
DII's	10.0
FII's	32.8
Public	20.4

Financials

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)	82.1	119.8	81.2						
EV/EBITDA (x)	25.0	26.1	23.3						
P/BV (x)	4.9	4.7	4.5						

Particulars	FY24P			FY25E			FY26E		
Revenue	30,706	34,798	39,614						
EBITDA	2,542	3,198	3,791						
EBITDA Margin (%)	8.3	9.2	9.6						
Net Profit	976	1,553	1,975						
EPS (₹)	15.0	23.8	30.3						
DPS (₹)	1.8	2.4	2.8						
RoE (%)	10.2	15.3	16.2						
RoCE (%)	13.4	18.9	19.6						
P/E (x)	39.9	25.1	19.7						
EV/EBITDA (x)	15.0	10.7	8.5						
P/BV (x)	4.1	3.6	3.0						

Source: Company, Way2Wealth

Relative Performance

Return(%)	1Yr	3Yr	5Yr
SUBROS	80.7	86.9	123.1
Nifty50	22.4	47.5	90.8
Sensex	18.9	45.4	88.0

Source: Company, Way2Wealth

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VIEW

Subros Ltd reported strong numbers in Q4FY24 and FY24 and it is expected to improve with increase in PV OEM production (SUV accounting for more than 50% market share), new SOPs for new model launches, increasing wallet share from existing customers and revenue contribution from non-auto segment, including railways. Implementation of Compulsory A/C instead of blower in CV from October 2025 will be added positive for Subros. (Market share of 54% in CV). Being the industry leader in automotive ACs and having strong technological support from JV partner Denso, margins are likely to improve as localisation efforts by the company moves up further. New opportunities in Non-PV segment (like Mahindra Tractor Oja), Railways, Hybrids and Buses and increase in vehicle content in EVs makes it a value **BUY** with **Target Range** of ₹670-690 trading at **P/E 19.7x FY26E EPS ₹30.3**. We recommend short terms investors to Book Profits once the stock price surpasses the target range while Long term investors can continue to stay invested as the management focus is to use new technologies to expand product portfolio like Hosen pipes for Battery cooling, Hybrid condensers and radiators along with new SOPs for compressors in CY25 should benefit the company in coming years.

Q4FY24 PERFORMANCE

(₹ mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	8,315.1	7,481.1	11.1	7,324.8	13.5	30,705.7	28,062.8	9.4
Cost of Matl	6,039.8	5,610.4	7.7	5,426.6	11.3	22,786.0	21,379.1	6.6
Inventories Changes	50.1	162.4	(69.2)	(62.4)	180.3	(113.3)	124.2	(191.2)
Employee Exps	737.0	600.6	22.7	709.9	3.8	2,840.9	2,477.2	14.7
Other Exps	716.8	597.8	19.9	655.1	9.4	2,650.0	2,407.3	10.1
EBITDA	771.4	509.9	51.3	595.6	29.5	2,542.1	1,675.0	51.8
EBITDA Margin (%)	9.3	6.8	246	8.1	115	8.3	6.0	231
Other Income	37.2	56.9	(34.6)	65.9	(43.6)	145.4	202.9	(28.3)
Finance Cost	37.2	20.9	78.0	38.2	(2.6)	116.7	67.8	72.1
Depreciation	318.4	279.0	14.1	283.7	12.2	1,165.1	1,102.8	5.6
PBT	453.0	266.9	69.7	339.6	33.4	1,405.7	707.3	98.7
JVs Profit/ (Loss)	(2.5)	(3.6)	(30.6)	0.7	(457.1)	0.8	1.2	(33.3)
Tax	146.2	80.5	81.6	71.7	103.9	430.4	229.3	87.7
Net Profit	304.3	182.8	66.5	268.6	13.3	976.1	479.2	103.7
EPS (₹)	4.7	2.8	66.5	4.1	13.3	15.0	7.3	103.7

As % to Sales	Q4FY24	Q4FY23	YoY (bps)	Q3FY24	QoQ (bps)	FY24	FY23	YoY (bps)
Raw Matl Cost	73.2	77.2	(393)	73.2	1	73.8	76.6	(279)
Gross Profit	26.8	22.8	393	26.8	(1)	26.2	23.4	279
Employee Exps	8.9	8.0	84	9.7	(83)	9.3	8.8	42
Other Exps	8.6	8.0	63	8.9	(32)	8.6	8.6	5

Source: Company, Way2Wealth

SEGMENTAL REVENUE MIX

(₹ mn)

Particulars	FY20	FY21	FY22	FY23	FY24
Revenue from AC Supply in PV	15,544	13,758	17,088	21,853	23,000
Revenue from other new Verticals	4,241	4,200	5,297	6,210	7,706
CV & buses	800	700	900	1,150	900
Radiator/ECM	2,391	2,450	2,989	4,000	5,000
Home AC	930	880	1,258	840	1,666
Trans. refrigeration	100	100	50	70	90
Railways	20	50	100	150	50
Other Operating income	143	-	-	-	-

Source: Company, Way2Wealth

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Revenue from AC Supply in PV	-	-	15,544	13,758	17,088	21,853	23,000	26,927	28,834
Revenue from other new Verticals	-	-	4,241	4,200	5,297	6,210	7,706	6,518	8,430
CV & buses	-	-	800	700	900	1,150	900	1,478	2,933
Radiator/ECM	-	-	2,391	2,450	2,989	4,000	5,000	4,595	4,958
Home AC	-	-	930	880	1,258	840	1,666	155	189
Trans. refrigeration	-	-	100	100	50	70	90	90	90
Railways	-	-	20	50	100	150	50	200	260
Other Operating income	-	-	143	-	-	-	-	-	-
Revenue	19,696	21,245	19,928	17,957	22,386	28,063	30,706	34,798	39,614
EBITDA	2,099	2,282	1,890	1,538	1,487	1,675	2,542	3,198	3,791
EBITDA Margin (%)	10.7	10.7	9.5	8.6	6.6	6.0	8.3	9.2	9.6
PAT	606	762	848	474	325	479	976	1,553	1,975
EPS (₹)	9.3	11.7	13.0	7.3	5.0	7.3	15.0	23.8	30.3
DPS (₹)	1.1	1.3	0.8	0.7	0.7	1.0	1.8	2.4	2.8
RoE (%)	15.0	11.2	11.3	6.0	3.9	5.5	10.2	15.3	16.2
RoCE (%)	21.1	20.0	12.2	7.2	5.3	6.2	13.4	18.9	19.6
Cash Balances	200	904	909	1,192	1,186	884	1,224	4,768	7,204
FCF	840	(271)	1,407	1,448	449	83	1,109	3,531	2,117
Receivable Days	30	29	35	42	37	27	34	34	33
Inventory Days	66	61	61	80	70	57	60	63	58
Payable Days	112	96	100	146	107	83	81	79	74
Net Debt/ Equity (x)	1.0	0.3	0.1	(0.1)	(0.0)	0.02	(0.1)	0.0	0.0
P/E (x)	64.3	51.1	45.9	82.1	119.8	81.2	39.9	25.1	19.7
EV/EBITDA (x)	20.6	17.9	21.1	25.0	26.1	23.3	15.0	10.7	8.5
P/BV (x)	9.6	5.7	5.2	4.9	4.7	4.5	4.1	3.6	3.0
PEG	0.2	2.0	4.1	(1.9)	(3.8)	1.7	0.4	0.4	0.7

Source: Company, Way2Wealth

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Disclosure of Interest Statement: SUBROS LTD. as on 29th May 2024

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