

Diversification and auto growth to benefit Subros

<http://economictimes.indiatimes.com/markets/stocks/news/diversification-and-auto-growth-to-benefit-subros/articleshow/51183362.cms>

ET Intelligence Group : The passenger car market is one of the few segments of the economy where analysts see growth prospects in the medium term. Subros, a major supplier of air condition (AC) kits to carmakers, is a promising company in this category.

Its volume growth is expected to improve given the growth in passenger car volumes and the strategy to diversify activities by entering new areas of operations. The company expects to clock annual revenue of Rs 2,000 crore in the next three years compared with Rs 1,200 crore in FY15.

So far, Subros BSE -1.39 % was selling AC kits for petrol driven cars. It is in the process of developing kits for Maruti's diesel variants as well, which should increase the current kit volume of 84,000 units per month by 10,000-15,000 units. Diesel cars account for nearly 40% of Maruti's total sales volume.

To diversify its customer base, the company is actively engaging with other carmakers. Recently, it has started providing around 6,000 kits every month to Renault. This is expected to jump four times within a year. It will start supplying 4,000 kits for Mahindra Scorpio.

These new engagements are likely to enhance Subros's capacity utilisation to 79% from the current 56%, improving the asset turnover and profitability. In the nine months to December 2015, it had volume growth of 20%, which was faster than 13% growth for Maruti. It shows that Subros' strategy to add clients is yielding results.

To reduce its reliance on one product, Subros will soon start supplying radiators to Maruti under a contract arrangement with Denso BSE 0.32 %, a Japanese auto components provider. This may add Rs 120-150 crore to the top line of Subros in the next financial year.

It also plans to sell condensers for the domestic AC manufacturers. It has entered into an agreement with AC manufacturer, Whirlpool. If the arrangement works out well, it can offer revenue potential of Rs 250-300 crore a year. Besides, it recently received an order worth Rs 15 crore from Indian Railways to supply cabin ACs.