February 17, 2025

Subros Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund based – Term Loan	5.63	0.00	-
Short-term – Non-fund based Facilities	50.00	50.00	[ICRA]A1+; reaffirmed
Long-term/Short-term – Fund based Limits	80.00	80.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Long-term/Short-term – Fund based/Non fund based Limits	100.00	100.00	[ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Long-term/Short-term – Unallocated Limits	67.87	35.00	[ICRA]AA(Stable)/[ICRA]A1+; reaffirmed
Total	**303.50**	**265.00**	

**Instrument details are provided in Annexure I*

Rationale

The reaffirmed ratings for Subros Limited (Subros) factor in the steady operating performance of the company aided by its established relationships and healthy share of business with leading original equipment manufacturers (OEM). Subros reported a healthy YoY revenue growth of 10% in FY2024 and 9M FY2025, aided by steady underlying demand in the passenger vehicle (PV) industry. Its medium-term growth prospects remain healthy, given its strong market position in the PV industry and continued demand in the industry. Further, the notification from the Government of India mandating air-conditioned (AC) fitted cabins in N2 and N3 trucks (both segments combined cover trucks having gross vehicle weight exceeding 3.5 tonnes), manufactured after October 2025, is expected to generate incremental revenue prospects for the company. While the company has significantly muted its sales in the home AC segment due to low segment margins amid inflationary pressure in the fixed price nature of contracts, an increase in the contribution from the other business segments, such as commercial vehicle (CVs) and Indian Railways is expected to support its earnings growth prospects.

The ratings for Subros continue to factor in its strong market position in the thermal products segment of the PV industry, benefitting from its integrated manufacturing operations and strong product development capabilities, which is supported by technical support from Denso Corporation, Japan. The company is expected to continue its growth momentum on account of new product development for various models of PVs, buses, trucks and the railways segment. The ratings also continue to favourably factor in Subros's healthy financial risk profile, characterised by a net negative debt position, strong debt coverage indicators (total debt/OPBDITA of 0.2 times and interest coverage of 30.0 times as of September 30, 2024) and a robust liquidity profile (cash and liquid investments of ~Rs. 127.3 crore as on September 30, 2024).

The company's operating profitability, which remained impacted over FY2020-FY2023 (6% in FY2023) by inflationary pressures, improved to 8.4% in FY2024 and further to 9.3% in 9M FY2025, aided by the easing of commodity prices and sustained reduction in import content (stood at ~16% of revenues as of March 2024). The profitability continues to remain susceptible to commodity and logistics costs owing to any adverse geopolitical situation. However, the operating margins and return indicators are expected to improve over the medium term, aided by operational efficiencies, cost efficiency measures as well as increased localisation. The company has capex requirements at ~Rs. 100-120 crore per annum, which are to be largely funded through internal accruals. Further, the company is setting up a greenfield facility in Kharkhoda to cater to the growing demand in the PV segment at an estimated cost of ~Rs. 150 crore, which will be funded through a mix of debt and internal accruals. An expectation of improved cash accruals is likely to help the company maintain its strong financial risk profile and liquidity position.

The company's business remains characterised by high customer and segment concentration risk with sales to Maruti Suzuki India Limited (MSIL, including indirect sales) accounting for ~85% of revenues in FY2024 and H1 FY2025. The same is mitigated to an extent by its strong share of business (SOB) with MSIL and the OEM's market leadership in the PV segment. Moreover, business gains from the new segments are expected to lead to some moderation and client concentration risks going forward.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's revenue and earnings growth will remain at healthy levels over the medium term, supported by continued business awards from MSIL and diversification into new segments. ICRA expects the company to continue maintaining a conservative financial risk profile, reflected in limited incremental dependence on external borrowings.

Key rating drivers and their description

Credit strengths

Strong market share of thermal products in PV industry; supply ramp-up for other businesses to aid sector diversification over medium term – Subros is a leading automotive thermal system manufacturer in the domestic market. Despite intense competition, it has successfully maintained a strong market position (an estimated market share of ~42% in the addressable product range in PV industry), benefitting from its integrated manufacturing and strong product development capabilities. The company has a strong SOB of ~80% with MSIL, which improved over the recent past with an increase in the proportion of sales originating from the SUV segment, where Subros holds a higher share. Over the last few years, it has also expanded its product range to cater to other segments such as CV OEMs and Indian railways. The company has recently secured a tender of ~Rs. 25 crore for supplying roof mounted ACs for Indian railways coaches. Further, the mandated usage of AC cabins in N2/N3 category vehicles would provide the company with incremental revenue opportunities from FY2026. Accordingly, its dependence on the PV segment is expected to reduce over the medium term as supplies for new business segments scale up.

Technical collaboration with Denso Corporation strengthens product development capabilities and competitive positioning – Subros has a technical collaboration with Denso Corporation, a leading automotive manufacturer in the global market. The company's strong product development capabilities, coupled with its considerable scale of operations and low-cost structure, have enabled it to sustain a strong market position over the years. Its strong parentage (Suzuki Motor Corporation and Denso Corporation hold ~12% and ~20% equity stakes, respectively) has also helped it maintain strong business relationships with its primary customer, MSIL, while aiding in establishing relationships with new customers.

Healthy financial risk profile characterised by conservative capital structure and strong debt coverage indicators – Subros received an equity infusion of Rs. 209.9 crore from the issue of equity shares on a preferential basis to Denso Corporation, Japan, in December 2018. The company utilised the equity proceeds for part repayment of its debt and creditors, and the financial risk profile of the entity improved significantly following the infusion. It continues to maintain healthy cash and liquid investments (~Rs. 127 crore as on September 30, 2024) and is characterised by a net negative debt position and strong debt coverage indicators (total debt/OPBDITA of 0.2 times, interest coverage of 30.0 times and DSCR of 24.9 times in H1 FY2025). The total outside liabilities/ total net worth ratio also remains at moderate levels of 0.8 times despite the presence of significant creditors on the company's books. With capex requirements expected to remain at moderate levels going forward, an expectation of strong cash accruals is likely to help the company maintain its strong financial risk profile and liquidity position.

Credit challenges

High client and segment concentration risks with MSIL, driving more than 80% of sales – The company remains exposed to customer concentration risk with sales to MSIL accounting for ~85% (including indirect sales) of its revenues in FY2024 and H1 FY2025. Although it results in high client concentration risk, the same is mitigated to a large extent by the OEM's market leadership in the PV segment and Subros' strong SOB across various models of the OEM. Even as the PV segment is likely to remain the mainstay of the company's business, the dependence is expected to reduce over the medium term as supplies for other business segments materially scale up.

Moderate profitability and return indicators – The operating profitability moderated over FY2020-FY2023 (from earlier levels of 10-11%) led by multiple factors such as a change in product mix (with an increase in contribution from the home AC segment, which entailed relatively lower margins), high commodity prices, increase in diesel prices, logistics and packaging costs. The company's operating margin, however, improved in FY2024 (8.4%) and further in 9M FY2025 (9.3%) and is expected to gradually improve over the medium term, benefitting from economies of scale, measures to rationalise costs as well as increased localisation. Following the moderation in RoCE in FY2021-FY2023 to the levels of 6.5-8.5%, an expectation of a gradual enhancement in operating margin going forward is likely to help the company improve its return indicators (core RoCE expected to improve to 18-20% over the medium term).

Environmental and social risks

Environmental considerations – Even as Subros is not directly exposed to climate-transition risks from a likelihood of tightening emission control requirements, as its products are used across several fuel powertrains, its automotive manufacturing customers remain highly exposed to the same. Accordingly, Subros' prospects are linked to the ability of its customers to meet the tightening emission requirements. The company may need to invest materially to develop products for electric vehicles, even as a transition towards the same in the segments catered is likely to be gradual. The company's exposure to litigation/penalties from issues related to waste and water management remains relatively low.

Social considerations – Subros, like most automotive-component suppliers, has a healthy dependence on human capital, and, thus, retaining human capital, maintaining healthy employee relations and supplier ecosystem remain essential for disruption-free operations for the entity. Another social risk that Subros faces pertains to product safety and quality, wherein instances of product recall and high warranty costs may not only lead to financial implications but could also harm the reputation and create a more long-lasting adverse impact. In this regard, Subros' strong track record in catering to leading automotive manufacturers underscores its ability to mitigate these risks to an extent. The company's strong technological capabilities, aided by the support from Denso Corporation, are expected to effectively align its products with any changes in customer preferences.

Liquidity position: Strong

The liquidity position of the entity remains strong, supported by sizeable cash and liquid investments (~Rs. 127.3 crore of cash and liquid investments as on September 30, 2024), low utilisation of working capital facilities (average utilisation of 21% of the sanctioned limit for last 12 months ended September 2024) and expectation of strong cash accruals (more than Rs. 180 crore per annum). The entity continues to have more than sufficient liquidity to meet its capex plans (~Rs. 100-120 crore p.a. towards maintenance) and ~Rs. 150 crore over FY2025-FY2027 towards setting up a new plant in Kharkhoda (Haryana).

Rating sensitivities

Positive factors – ICRA could upgrade Subros' rating in case of a sustained improvement in its operational profile through material diversification of its automotive segment mix while maintaining healthy liquidity and credit metrics.

Negative factors – ICRA could downgrade Subros' rating in case of a significant deterioration in its operational profile led by a decline in SOB with key OEMs, especially MSIL. The ratings could also be downgraded in case of a deterioration in its profitability indicators or a higher-than-expected capital expenditure/ acquisition outlay, which may adversely impact its credit profile. Specific credit metrics that may lead to a downgrade include debt/OPBDITA greater than 1.0 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Auto components
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Subros Limited. As on March 31, 2024, the company had one joint venture, which is enlisted in Annexure II.

About the company

Incorporated in 1985, Subros Limited is a leading thermal system manufacturer of compressors, condensers, hoses and tubes. The company is promoted by the Suri family, whose business interests are spread across diverse industries, such as education, hospitality and telecom access products. While the company was initially focused on providing cooling solutions for the PV segment, over the years, it has gradually expanded its product portfolio to include thermal systems for homes, bus cabins, truck cabins, railway coaches and driver cabins.

The company's manufacturing plants are located in Noida (Uttar Pradesh), Manesar (Haryana), Pune (Maharashtra), Chennai and Karsanpura (Gujarat). It also has a manufacturing and assembly unit for residential and commercial cooling products at Nalagarh (Himachal Pradesh). Subros has a technological agreement with Denso Corporation, Japan, a leading automotive manufacturer in the global market. Denso Corporation currently has a 20% ownership interest in Subros. Suzuki Motor Corporation, Japan, also holds a ~11.96% share in the listed entity, with ~36.79% held by the Suri family.

Key financial indicators (audited)

Subros Limited (consolidated)	FY2023	FY2024
Operating income	2,806.3	3,073.2
PAT	47.8	97.5
OPBDIT/OI	6.0%	8.4%
PAT/OI	1.7%	3.2%
Total outside liabilities/Tangible net worth (times)	0.8	0.7
Total debt/OPBDIT (times)	0.5	0.1
Interest coverage (times)	24.8	22.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 17, 2025	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	-	-	Jan-31-24	[ICRA]AA (Stable)	Jan-31-23	[ICRA]AA- (Positive)	Jan-24-22	[ICRA]AA- (Stable)
Non Fund-Based Facilities	Short term	50.00	**[ICRA]A1+**	Jan-31-24	[ICRA]A1+	Jan-31-23	[ICRA]A1+	Jan-24-22	[ICRA]A1+
Fund Based Limits	Long term/ short term	80.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	Jan-31-24	[ICRA]AA (Stable)/ [ICRA]A1+	Jan-31-23	[ICRA]AA- (Positive)/ [ICRA]A1+	Jan-24-22	[ICRA]AA- (Stable)/ [ICRA]A1+
Fund/Non Fund-based Limits	Long term/ short term	100.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	Jan-31-24	[ICRA]AA (Stable)/ [ICRA]A1+	Jan-31-23	[ICRA]AA- (Positive)/ [ICRA]A1+	Jan-24-22	[ICRA]AA- (Stable)/ [ICRA]A1+
Unallocated Limits	Long term/short term	35.00	**[ICRA]AA (Stable)/ [ICRA]A1+**	Jan-31-24	[ICRA]AA (Stable)/ [ICRA]A1+	Jan-31-23	[ICRA]AA- (Positive)/ [ICRA]A1+	Jan-24-22	[ICRA]AA- (Stable)/ [ICRA]A1+
Commercial Paper	Short term	-	-	Jan-31-24	[ICRA]A1+; Withdrawn	Jan-31-23	[ICRA]A1+	Jan-24-22	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Short-term – Non-fund based Facilities	Very simple
Long-term/Short-term – Fund based Limits	Simple
Long-term/Short-term – Fund based/Non fund based Limits	Simple
Long-term/Short-term – Unallocated Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	Non Fund-Based Facilities	NA	NA	NA	50.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	80.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Fund/Non Fund-based Limits	NA	NA	NA	100.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	35.00	[ICRA]AA (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company name	Subros ownership	Consolidation approach
Subros Limited	100.00% (rated entity)	Full consolidation
Denso Subros Thermal Engineering Centre India Limited	26.00%%	Equity Method

Source: Subros Annual Report FY2024

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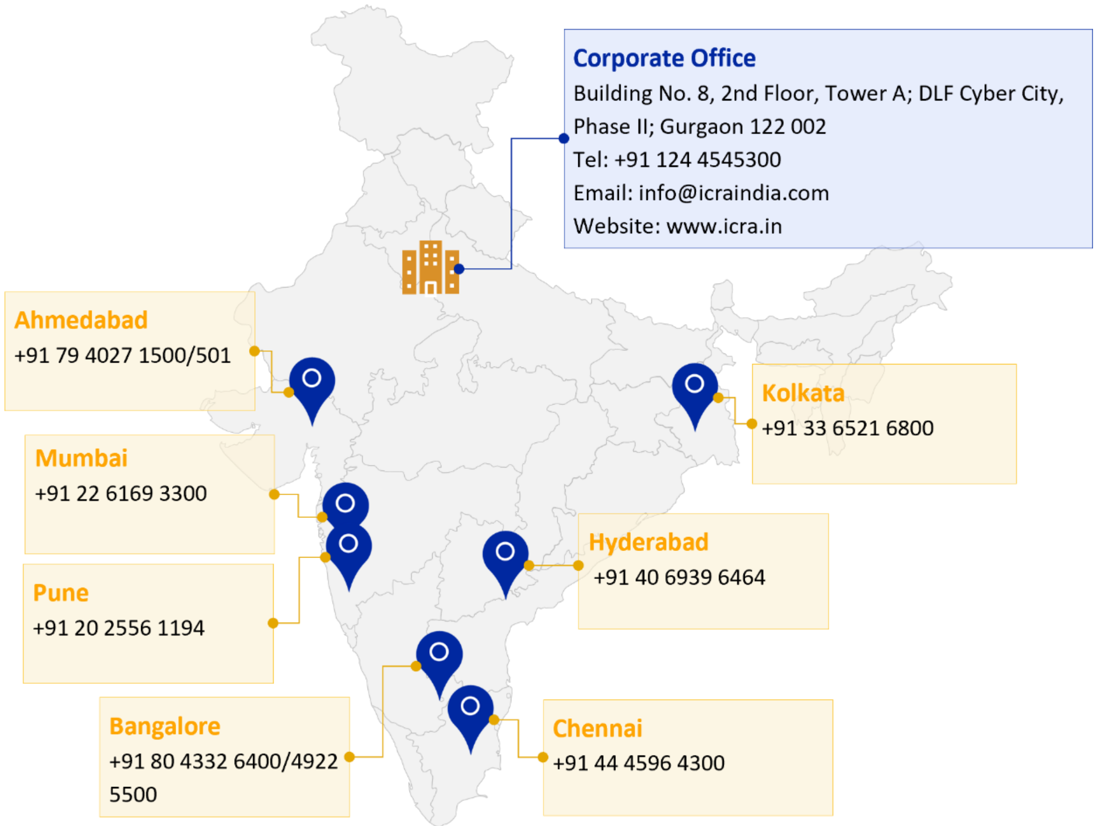

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