Subros

Operator: Ladies and gentlemen, good day and welcome to Subros Ltd. Q2 FY27 post-results earnings conference call hosted by 361 Capital Market Private Limited. As a reminder, all participants' lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from 361 Capital Market Private Limited. Thank you, and over to you, sir.

Annamalai Jayaraj – 361 Capital Market Private Limited: Thank you, Anna. Welcome to all the participants on Subros Ltd. Q2 FY27 post-results conference call. From Subros management, we have with us today Mr. Pramod Kumar Duggal, Executive Director and Chief Executive Officer; Mr. Hemant Kumar Agarwal, Chief Financial Officer and Senior Vice President, Finance; and Mr. Sudhir Singh Gill, Vice President, Finance. I will now hand over the call to Mr. Pramod Kumar Duggal, CEO, for the opening remarks, after which we will proceed to the Q&A session. Over to you, sir.

Pramod Kumar Duggal – CEO: Thank you, Mr. Jayaraj. Good morning, ladies and gentlemen. A very warm welcome to all of you on the investor call of Subros Ltd. for Q2 FY27. Let me begin by reflecting on the performance of the Indian automotive industry and the opportunities that lie ahead for Subros.

The Indian automotive industry delivered a strong performance during Q2 of this fiscal year. Domestic sales across all four major vehicle segments—passenger vehicles, two-wheelers, three-wheelers, and commercial vehicles—grew by 18.2%, with record sales of 83.88 lakhs. Exports also grew by 23.9%, which is quite encouraging. The growth has been supported by improved affordability following GST 2.0, resilience in rural and urban demand, new vehicle launches, financing availability, and a gradual replacement cycle.

The outlook for the second half of the financial year also remains encouraging, although the growth rate may moderate as the industry moves against a higher base. At the same time, geopolitical uncertainty, commodity price volatility, logistics disruptions, and inflationary pressures have continued over the last 6 months, which is impacting margins significantly. Subros achieved strong growth of 36.26% during the quarter, reflecting robust customer demand and our ability to support the growing requirements of the automotive industry.

However, profitability continues to remain under pressure due to significant cost escalation arising from the geopolitical situation, higher input and energy costs, and increased wages and logistics expenses. The company reported revenue from operations of 1,198.90 crores during Q2, representing growth of 36.26% over the corresponding quarter of last year.

Our market position continues to remain strong. Our share of the passenger vehicle market stood at 41%. The truck AC market was at {? 2 to 43% ?}, and the bus AC segment stood at 16% during the quarter. EBITDA for Q2 FY27 stood at 91.49 crores as against 87.98 crores in the corresponding quarter. Though, in absolute terms, there is an improvement of 5.17%, in percentage terms there is a dip of 2.38% as compared to the corresponding quarter. The major impact is due to the escalation in commodity, foreign exchange, and logistics costs, which are not fully reimbursable through

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pricing.

There is a quarter lag in terms of commodity compensation, which is also adversely impacting EBITDA. Additionally, in the last year, there was one element of income, 1.52%, which was a reimbursement of incentive from the Gujarat government and was accounted for last year. Similarly, profit before tax was 59.96 crores as against 54.49 crores, representing growth of 10% in absolute terms. Profit after tax stood at 44.64 crores as against 40.59 crores, again representing 10% growth in absolute terms as compared to the corresponding period.

Our non-passenger vehicle diversification strategy is also yielding encouraging results. During the quarter, the commercial vehicle business grew by 54%, and the bus AC business grew by 64%...

Management: Let me now update you on the ongoing expansion projects. Recently, we advanced two key strategic initiatives to strengthen Subros' long-term growth prospects. Subros Ltd. has inaugurated the Subros Advanced Technology and Innovation Centre, SATIC, to enhance our engineering capability, innovation, and material research, and position us to capture emerging opportunities in electric mobility and advanced thermal management products.

We have also commenced operations through a soft launch at our Kharkhoda plant. Subros Kharkhoda is a state-of-the-art plant with a green building and higher levels of automation and digitalization as compared to our existing plants. We are strengthening our ability to support customer programs closer to their manufacturing locations. The priority now is to ramp up operational efficiency, stabilize processes, and achieve plant capacity utilization as quickly as possible.

These investments will expand our manufacturing capacity, strengthen customer proximity, and support future business growth, with a focus on efficient capacity utilization and sustainable return on capital. Also, to ensure our sustained growth, Subros is engaging with customers for future vehicle programs. Recently, we informed you that we have secured a large business of 1,225 crores, with an RFP period of 7 years from Maruti Suzuki. The SOP for this project will be in FY29.

Before I conclude, let me briefly summarize the financial highlights for Q2. Revenue from operations was 1,198 crores, registering growth of 36.26%. EBITDA was 91.49 crores, with growth of 3.99% in absolute terms. Profit before tax stood at 59.96 crores, registering growth of 10.04% in absolute terms. Profit after tax was 44.64 crores, with growth of 9.97% as compared to the corresponding quarter of last year in absolute terms. That is all from my side. We are happy to take questions now.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on the touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question comes from the line of Prakash Kapadia from Entrust. Please go ahead.

Prakash Kapadia – Entrust: Thank you for the opportunity. Our EBITDA margins are at 7%, at a 13-14-quarter low. In the presentation, you mentioned elevated raw material prices and product mix changes leading to this, with RM cost increasing by nearly 300 bps. Can you explain the product

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mix change in greater detail and, from a gross margin perspective, give us some sense of the current mix of passenger vehicles, railways, EV compressors, and truck ACs, and what is likely to be the mix in the near term? This would give us better clarity on the impact of the product mix change on gross margins.

Secondly, from an understanding perspective, is aluminum the largest component, followed by copper and steel, in RM, and would these account for around 70% of our raw material cost? Is that a fair understanding?

Lastly, given these elevated prices, is a high-single-digit EBITDA margin the best-case scenario in the near term? I am not looking for guidance, but for a directional view. Those are my questions. Thank you.

Management: [pause] Thank you, Prakash. You had three questions, so I will answer them one by one.

First of all, we need to understand the cost composition and how commodities are used in our products. The largest contributions to the product in terms of commodities are plastic, aluminum, copper, and steel. These are the four commodities that are used for our products. During the last 2 quarters, starting from February onwards, all four are currently at their peak.

The second element impacting manufacturing efficiency in terms of margins or operating costs is the use of PNG, LPG, and helium. These are the gases used for converting products or for carrying out the processes. They are also at their peak, with an increase of 200-300%.

The third major contributor is logistics cost, which is impacting our import landed cost. This has increased, especially from the China and Japan sectors, by almost 200-300%. These are the three major reasons for the cost escalation.

For certain commodities, based on the net weight delivered to the customer, the costs are compensable by the customer, but with a quarter lag. That means the Q2 impact will come back to us in Q3, provided we are not into the next peak in Q3.

The second part you asked about is the impact of the product mix. As I mentioned before, there is overall growth of 36% for Subros, and all the OEMs are currently operating at peak levels. We are almost running at 100% of capacity. The compromise in servicing the OEMs without disturbing their lines is in aftermarket sales. That is where the margins have been compromised, because aftermarket sales provide better margins, but we had to service the OEMs during this period, so there was no capacity to do that.

The third question you mentioned was about the impact of elevated prices on margins. As the situation normalizes, if you compare the Q4 results of last year with Q1 and Q2, the only element where the impact is negative is material cost. Other heads, operating costs, and all other elements are on a positive trend. Until this geopolitical situation is stabilized or we have a one-time settlement with customers for all the cost escalation as an interim solution, I think we need to wait for another 2 quarters to settle all these issues, and then we will return to our normal performance.

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Prakash Kapadia – Entrust: I understand that these are extraordinary times, with raw material costs at all-time highs. Typically, you have always mentioned that this happens with a quarter lag. In this case, where volatility is so high and input costs are increasing on a weekly or monthly basis, can the material settlement happen faster? Is there some pricing that can come through at a faster rate, or does it not work that way and will it always be with a quarter lag?

Assuming these elevated prices continue, should we directionally look forward to a high-single-digit EBITDA margin rather than the aspirational higher margin?

Management: It depends from OEM to OEM. Currently, the OEMs are also under tremendous pressure from cost escalation. Therefore, they are not changing their stance on quarter-lag compensation right now, although we are pushing all the OEMs to at least move to monthly compensation, but we have still not been successful. Most auto-component companies have also not been successful in moving to monthly compensation. That is part one.

Yes, you are right. In case these matters do not settle down and commodity prices do not come down to normal levels, we will be at a higher-single-digit EBITDA margin, at least for the period when these cost escalations remain unchanged.

Prakash Kapadia – Entrust: Okay, thank you. All the best and happy festival greetings to the team. Thank you.

Management: Thank you. The same to you.

Operator: Thank you. A reminder for all participants: in order to ask a question, you may press star and one. The next question comes from the line of Raj from TPR Capital. Please go ahead.

Raj – TPR Capital: I think this quarter we saw two SOPs starting, two for ICE, and one EV program also progressing. Can you provide more detail on how these programs are ramping up and when we can expect the commercialization phase for these two models?

Management: The SOP of the EV program is still at the ramp-up stage. Very negligible numbers have come in, but the ICE program is a minor change where we already had a business from the previous program, and with the minor change it is going to [cut off]

Management: Ramp-up as of now. So right now, it is at a very initial stage. We cannot comment on how much additional ramp-up will come, but we are prepared for the alignment.

Raj – TPR Capital: Understood. With the Kharkhoda plant, can you provide more detail? You have already started trial production, so when can we expect commercialization from there? We have almost 4.5 lakh units there, and since we are already reaching 100% utilization in this plant, the incremental revenue growth can be contributed by that plant. I want to understand where you are with commercialization at that plant and what demand you are seeing from our OEM customers for products from that plant.

Management: As we informed the market, we started commercialization of this plant in the last week of October, that is, October {? 24 ?}. Yes, October 24. Billing has started. The lines are gradually being approved by the customers, so full approval will come within November. From

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December 1, we will start supplying one model initially, and then both Maruti Kharkhoda models will finally be supplied from this plant.

As I mentioned before, this will provide an ease-out for us to free up certain capacity in our existing plant and start ramping up in the new plant so that we can secure additional business opportunities.

Raj – TPR Capital: We can expect meaningful revenue contribution from the next financial year?

Management: From the next quarter, perhaps fully in Q4.

Raj – TPR Capital: This time, we have also seen an announcement by the government that the BIS standard exemption for your AC and refrigerator compressors will effectively end from 2027. Because this announcement has been made, have we seen any incremental opportunities or any clients that have ramped up discussions with us to make locally manufactured supply available? It could be a massive segment to address across air conditioners and refrigerators.

Management: This applies to home appliances only, not to the automotive segment.

Correct, correct. The government had also been extending this in the past, but now I think the notification is intended to set a date for it. This is, of course, a very attractive and very large segment to expand into if localization is feasible. We are in discussions with many players now. If we obtain this technology, we will definitely develop the feasibility business case for ramping up, but I think that every time we push for this, the government extends the date. Therefore, unless there is a firm date, the business case would be slightly weaker in this situation. We are working on that.

Raj – TPR Capital: Once that date is approached, considering that they have now set a date that they will not allow it after April '27, if that date gets confirmed [cut off]

Management: They had said the same thing earlier, but it gets extended every time because I think this market is quite large, and becoming ready for 100% localization will take time. Therefore, there will of course be pressure, but there will be a mix of relaxation and implementation.

Raj – TPR Capital: Understood. My last question, before I join back in the queue, is about the railway segment. I think we mentioned during the last call that product development and other initiatives for the railway segment were progressing. Some trials were also being conducted, so I wanted to know whether there is any further update in this direction and whether we are close to receiving any orders from Indian Railways or RDSO.

Management: All product approvals for railways have now been approved. The products have been validated, and we received the business after that. I think around 40 crores of business is already secured. Supplies will start from this quarter, which means Q3, in December, and from January-February-March we will have a full quarter of sales on the railway side.

It is progressing well now. We have a footprint available beyond the driver cabin, extending to the coaches as well, and now we are expanding this coach AC to multiple models.

Raj – TPR Capital: We can see the ramp-up in these orders since you are moving from driver cabins to coaches. Can we see a ramp-up happening next year?

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Management: Yes, yes. Of course.

Raj – TPR Capital: Okay. Thank you so much, sir. I will join back in the queue.

Management: Okay.

Operator: Thank you. A reminder for all participants: in order to ask a question, you may press star and one. The next question comes from the line of Ronak Jain from Equirus Securities Private Limited. Please go ahead.

Ronak Jain – Equirus Securities: Hi, sir. Thank you for giving me the opportunity. I have just one question. Can you provide the segmental revenue breakup for Q2, which you usually give?

Management: Out of total turnover of 1,198 crores in Q2, almost 1,050 crores came from passenger vehicles. 96 crores came from the truck segment. Around 12 crores came from the bus segment. The rest came from other segments, including reefers, tractors, and aftermarket.

Ronak Jain – Equirus Securities: Okay. Understood. Thank you, sir.

Operator: Thank you. A reminder for all participants: in order to ask a question, you may press star and one. The next question comes from the line of Annamalai Jayaraj from 351 Capital. Please go ahead.

Annamalai Jayaraj – 351 Capital: I have two questions, sir. One is about the CAFE norms. The government has announced some credits with weightage for using energy-efficient air conditioning. Are we seeing any traction or discussions from any OEMs? Generally, OEMs are trying to improve their air-conditioning systems. Is anything happening in that area directionally, sir?

Management: Will you ask both questions, or shall I answer them one by one?

Annamalai Jayaraj – 351 Capital: No, this is the first question. The second one is about radiators and our efforts to work on tractors. Have we seen any traction in that area?

Management: On the first question about the CAFE norms, credits have of course already been announced, and a few are at the draft stage, where air-conditioner efficiency, compressor usage, hybrid compressors, and so on will be part of the credits available to OEMs.

We are at a very advanced stage of discussions with OEMs regarding improving AC efficiency from here on so that OEMs will receive credits under CAFE. The major contributor to CAFE is fuel economy. AC performance should boost fuel economy; that is part one. The other element is energy recovery. These are the two elements we are working on right now, and we are definitely at an advanced stage. This will help OEMs obtain this {? crystallization ?}.

The second question you asked was about penetration on the tractor side. As we discussed earlier, Mahindra is currently quite the market leader in tractor air conditioning. Its venture between Mitsubishi and Mahindra for exporting these tractors to the Japanese and US markets, as well as Oja direct Mahindra exports to the US market, is progressing well.

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Of late, we have seen a significant increase in tractor volumes as well. We are now in discussions with other OEMs because, following the Oja launch and the AC tractor cabin launch in the Indian domestic market, other OEMs are also attracted to AC cabins for tractors. We are in discussions with the other OEMs as well to address the domestic market opportunity.

The tractor segment is an emerging market, although the base is low because there is no mandate for AC, and it is optional for the OEM. However, we see significant potential going forward in the tractor segment.

Annamalai Jayaraj – 351 Capital: Understood, sir. One point on these energy-efficient air-conditioning systems: when the systems undergo an upgrade, will there be any meaningful increase in content for us, or will the increase in content be very insignificant when energy-efficient AC is introduced?

Management: I would say it will not be a significant increase in content per vehicle, but it would be an advantage to the OEM in terms of credits. That is how I think there would be some value change, but overall content will not change significantly.

Annamalai Jayaraj – 351 Capital: Okay, understood. Thank you.

Operator: Thank you. The next question comes from the line of Raj from TPR Capital. Please go ahead.

Raj – TPR Capital: This quarter, we have seen long-term borrowings increase by 54 crores and short-term borrowings also increase by 18 crores. Is there any particular reason why this has happened? I mean, in H1, not just this quarter.

Management: The long-term loan was taken for our Kharkhoda plant. We had also updated earlier that some loan would be tied up for the Kharkhoda plant, so the term loan was availed against the cash outflow for the Kharkhoda plant.

Raj – TPR Capital: Okay. Second, working capital...

Management: Yes.

Raj – TPR Capital: Understood. I had one more question. We have seen this use case in data centers, where they use HVAC to cool the entire system and compressors are used. Wherever there is HVAC, is that technology synergistic with our business?

We received an HVAC order from Maruti this quarter as well. Is this a business that we can explore with our existing compressor capability and expertise? Wherever HVAC is being used for cooling in a data center, can we provide those compressors?

Management: This is a different technology. Data center, residential, and commercial air conditioning use technology that is completely different from automotive technology. Scroll compressors are used for large-building air conditioning. We are not in that technology as such, but we may see if this can be explored further.

Raj – TPR Capital: Okay. So it can be a potential opportunity for us.

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Management: Yes, of course.

Raj – TPR Capital: Understood, sir. Thank you so much.

Operator: Thank you. Participants, please press star and one in order to ask a question. Ladies and gentlemen, we will take this as the last question for today. I now hand over to the management for closing comments. Over to you, sir.

Management: [pause] Thank you so much for joining today. We have discussed the impact of the geopolitical situation, which is affecting us in terms of margin contraction. We are working on internal efficiency improvements to partially offset this, but in addition to that, we are also in discussions with customers to reach a settlement on the extraordinary variation.

We need to see whether we will be able to achieve this in Q3 or Q4, but of course, as the market is currently at peak demand, we do not see any challenge on the demand side. We also do not see any challenge on the revenue growth side in H1 as well as H2. The projections for next year are also very encouraging.

Therefore, we need to bring forward our investments in terms of capacity expansion, which were earlier planned for next year, but now we will bring them forward so that we do not face capacity constraints in meeting customer demand. Our actions are underway. Please continue to trust Subros, and we will see a bright future ahead. Thank you.

Operator: Thank you. On behalf of Subros Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

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