"Subros Limited Q2 FY 2026-27 Earnings Conference Call"

November 04, 2026

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MODERATOR: **MR. ANNAMALAI JAYARAJ – 360 ONE CAPITAL MARKET PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Subros Limited Q2 FY 2026-27 Post Results Earnings Conference Call hosted by 360 ONE Capital Market Private Limited. As a reminder, all participant lines will be in the 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 an operator by pressing '*' then "0" on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from 360 ONE Capital Markets Private Ltd. Thank you and over to you, sir.

Annamalai Jayaraj: Thanks, Valorem. Welcome all the participants to Subros Limited Q2 FY 2026-27 Post Results Conference Call. From Subros Management, we have with us today, Mr. Parmod Kumar Duggal – Executive Director and Chief Executive Officer, Mr. Hemant Kumar Agarwal – Chief Financial Officer and Senior Vice-President (Finance) and Mr. Sukhbinder Singh Gill – Vice-President (Finance).

I will now hand over the call to Mr. Parmod Kumar Duggal – CEO for the opening remarks. Then we will go for a Q&A session. Over to you, sir.

Parmod Kumar Duggal: Thank you, Mr. Jayaraj. Good morning, ladies and gentlemen. A very warm welcome to all of you on the investor call of Subros Limited for Quarter 2 Financial Year '2026-'27.

Let me begin by reflecting the performance of the Indian automotive industry and the opportunities that lie ahead for Subros.

The Indian automotive industry has delivered a strong performance during Quarter 2 of this fiscal year. Domestic sales across all four major vehicle segments, passenger vehicle, two-wheeler, three-wheeler and commercial vehicle have grown by 18.2% with a record sale of Rs. 83.88 lakhs. Export has also grown by 23.9%, which is quite encouraging. The growth has been supported by improved affordability following GST 2.0, resilient 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 be moderate as the industry moves against a higher base.

At the same time, geopolitical uncertainty, commodity price, volatility, logistic descriptions and inflationary pressures continue to be there in the last 6 months which is impacting margin significantly. We have achieved as Subros a strong growth of 36.26% during the quarter, reflecting a robust customer demand and our ability to support the growing requirement of automotive industry.

However, profitability continues to remain under pressure due to significant cost escalation due to geopolitical situation, higher input costs and energy costs and increased wages and logistic expenses.

The company has reported a revenue from operations Rs. 1198.90 crores during Quarter 2, representing a growth of 36.26% over the corresponding quarter of the last year. Our market position continues to remain strong. Our share of business in passenger vehicle market stood at 41%, truck AC market has improved to 43% and bus AC segment stood at 16% during the quarter.

The EBITDA for Quarter 2 of FY26-27 stood at Rs. 91.49 crores as against Rs. 87.98 crores in the corresponding quarter. Though in absolute terms there is an improvement of 5.17%, however in percentage terms there is a dip of 2.38% as compared to the corresponding quarter. The major impact is due to the commodity forex and logistic cost escalation which are not fully reimbursable through pricing.

There is a quarter lag in terms of commodity compensation which is also impacting adversely into a beta. Additionally, in the last year there was one element of income 1.52% which was a reimbursement of incentive from the Gujarat Government which was accounted for last year. Same way the profit before tax is Rs. 59.96 crores as against Rs. 54.49 crores which has a growth of 10% in absolute terms. While the profit after tax stood at Rs. 44.64 crores as against Rs. 40.59 crores which is a 10% growth in absolute terms as compared to the corresponding period.

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

Let me now update you on the ongoing expansion projects:

Recently we have advanced two key strategic initiatives to strengthen Subros long-term growth prospect. Subros has inaugurated Subros advanced technology and innovation center setting 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 our operation through soft launch in our Kharkhoda plant. Subros Kharkhoda is a state-of-the-art plant with a green building and more automation and distillation level as compared to our existing plants. We are strengthening our ability to support customer program closer to their manufacturing location.

The priority now is to ramp up the operational efficiency, stabilize processes and achieve plant capacity utilization as quick 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 program. Recently we informed that we have secured a large business of Rs. 1225 crores which is a RFQ period of 7 years from Maruti Suzuki. The SOP of this project will be in FY29.

Before I conclude, let me briefly summarize the financial highlights for Quarter 2. Revenue from operation is Rs. 1198 crores, registering a growth of 36.26%. EBITDA of Rs. 91.49 crores with a growth of 3.98% in absolute term. Profit before tax stood at Rs. 59.96 crores, registered a growth of 10.04% in absolute term. Profit after tax is Rs. 44.64 crores with a growth of 9.97% as compared to the corresponding quarter of the last year in absolute term. That's all from my side, we are happy to take questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Prakash Kapadia from Entrust. Please go ahead.

Prakash Kapadia: Yes, thanks for the opportunity. Our EBITDA margins are at 7% at a 13-14 quarter low. In the PPT, you mentioned elevated raw material prices and product mix change leading to this RM cost increase of nearly 300 bps. So, can you explain the product mix change better and from a gross margin perspective, can you give us some sense on the current mix of passenger vehicles, railways, e-compressors, truck ACs and what is likely to be in the near term so we can get some better clarity on the product mix change impact of the gross margin?

And secondly, from an understanding perspective, is aluminum the largest component followed by copper and steel at R&N? These would be what, around 70% of our raw material cost. Is that fair understanding? And lastly, given these elevated prices, is high single digit the best-case scenario in the near term? I'm not looking at a guidance but a direction. Those are my questions. Thank you.

Parmod Kumar Duggal: Thank you, Prakash ji. You had three questions, so I will answer one by one. First of all, we need to understand the cost composition, how commodities are used in our products. So, the largest contribution of the product in terms of commodity is plastic, aluminum, copper and steel. They are the four commodities which are being used for our product. So, during the last two quarters, starting from February onward, all these four are right now at the peak.

The second element which is impacting the manufacturing efficiency in terms of margins or operational costs is the use of PNG, LPG, helium. So, these are the gases which are used for converting products or during the processes. They are also at the peak, the increase in the terms of 200% to 300%

And the third major contributor is the logistic cost which is impacting our import landed costs, which has increased especially from China and Japan sector almost 200% to 300%. So these are the three major reasons where the cost escalation has come. Now for certain commodities to the level of net weight delivered to the customer, they are compensable by the customer, but with a quarter lag.

That means Quarter 2 impact will come return back to us in Quarter 3, provided we are not into the next peak in Quarter 3.

The second part which you asked us is about the product mix impact. So, as I mentioned before, there's an overall growth of 36% by Subros, and all OEMs are right now running at the peak. And we are almost running to our 100% of capacity. The compromise on servicing the OEM without disturbing their line is on the aftermarket sales. And that's all where the margins have been compromised because aftermarket sales give better margin.

But we had to service OEMs during this period, so there was no choice then to do that. The third question which you did mention about the elevated prices impact on the margin, so and so. So, as the situation will normalize, because if you compare Quarter 4 result of last year versus Quarter 1 and Quarter 2 the only element where the impact is negative is on the material cost only. Other heads operating cost and all other elements are on a positive rank. So, till the time this geopolitical situation is stabilized, or we have one-time settlement with customer for all the cost escalation as intermediate solution, I think we need to wait for another maybe two quarters to settle all these things. And then we will return back to our normal performance.

Prakash Kapadia: Okay. So, I understand about these extraordinary times where raw material costs are at, all-time high. So typically, you have always mentioned it happens with a quarter lag. So, the material

settlement can't be faster in this case where the volatility is so high or the input costs are so up on a weekly basis, monthly basis.

So is there some pricing which can come through at a faster rate or it doesn't work that way and it will always be with a quarter lag and assuming these elevated prices continue then, directionally, a high single digit EBITDA margin rather than that aspirational higher margin is what we look forward as a direction.

Parmod Kumar Duggal: See, it depends upon OEM to OEM. Currently, OEMs are also under tremendous pressure of cost escalation. So, they are not changing their stance of quarter lag compensation. Right now, although we are pushing all the OEMs to at least come to monthly compensation, but still, we are not successful. And most of the auto components are not successful in terms of moving to monthly compensation.

Part one. Yes, you are right. In case these things are not settling down and peaks have not come down to the normal commodity prices, we will be into high single digit EBITDA margin, at least for the period when these cost escalations remain unchanged.

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

Parmod Kumar Duggal: Thank you. Same to you.

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

Raj: Yes. So, sir, I think this quarter we saw two SOPs starting one or two for ICE and one also progressing on an EV program. So, can you give a bit more light on how these programs are ramping up and when do we see our commercialization phase coming up for these two models?

Parmod Kumar Duggal: So, SOP of EV program is still at a ramp up stage, very negligible numbers which has come. But ICE program is a minor change where we already had a business of previous program and with the minor change it is going to ramp up now. So right now, it's the very initial stage. We cannot comment on how much delta ramp up will come, but we are prepared for the alignment.

Raj: Got it. And sir, with the Kharkhoda plant, can you just give us a bit more detail? Because we have already started with trials there. So, when can we expect commercialization happening from there? Because we have almost 4.5 lakh units there and since in this plant we are already hitting the 100% utilization, so the incremental revenue growth can be contributed from that plant. So just want to understand where we are at that plant commercialization and what is the demand that we have seen from our OEM customers for the products from that plant?

Parmod Kumar Duggal: So, as we informed to the market that we started commercialization of this plant last week, maybe October. And billing has started. The lines are gradually being approved by the customers. So full approval will come within this month of November. And from 1st December,

we will be starting supply for one model to start with. And then finally, both the models of Maruti Kharkhoda will be supplied from this plant.

So that's why, as I mentioned before, this would be an ease-out for us to spare out certain capacity in our existing plant and start ramping up into the new plant so that we can secure additional business opportunity.

Raj: Okay, so we can expect a meaningful revenue contribution to come from the next financial year?

Parmod Kumar Duggal: Next quarter, maybe Quarter 4 fully.

Raj: Got it. Sir, this time we have also seen an announcement made by the government that the exemption for AC and refrigerator compressors from the BIS standard will end effectively from 2027. So just wanted to get more idea from you. Because of this announcement being made, have we seen any incremental opportunities, any clients that have ramped up the discussions with us in terms of getting that locally made supply available? Because it can be a massive market to tap just across ACs and refrigerators.

Parmod Kumar Duggal: So, this is applied to home appliances only, not for the automotive sector.

Raj: Correct, correct, correct.

Parmod Kumar Duggal: So, the government was extending this in the past also, but now I think the notification is to put a date on that. This is of course a very attractive and very large segment to expand in case localization is feasible. We are in discussion with many players now that if we get these technologies, we will be definitely making the feasibility business case for ramping up. But still, I think every time we are pushing for this, government is extending this date. So, unless there is a firm date, business case would be slightly weaker in this case. So, we are working on that.

Raj: Okay. So, once it is approved, since considering now, they have put a date that we won't allow, so if that date gets...

Parmod Kumar Duggal: They said the same thing last time also, but it gets extended every time. Because I think this market is quite large and being ready for 100% localization will take time. So, there would be of course a pressure, but there would be a mix of relaxation versus implementation.

Raj: Got it, sir. And just my last question, sir, before I join back on the queue, what's the railway segment? I think we mentioned this during the last call also that product development and other initiatives for railway segment are progressing. I think some trials are also being conducted. So just wanted to know if there is any further update on this direction and are we close to getting any orders from the Indian Railways or IDSO?

Parmod Kumar Duggal: All the product approval for railway is approved now. The products have been validated and we got the business after that. I think around Rs. 40 crores of business is already secured. Supplies

will start from this quarter, that means Quarter 3 in the month of December. And from Jan 5th, March, we will have a full quarter sale on railway side. So, it is progressing well now. We have Footprint available other than the driver cabin to the coach also and now we are expanding this coach AC to multiple models.

Raj: Okay, so we can see the ramp up in these orders since you are going from coach AC to multiple. So, we can see a ramp up happening next year?

Parmod Kumar Duggal: Yes, yes, of course.

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

Parmod Kumar Duggal: Okay.

Moderator: Thank you. The next question comes from the line of Ronak Jain from Equirus Securities Private Limited. Please go ahead.

Ronak Jain: Hi, sir. Thank you for giving me the opportunity. Just one question from my side. Can you give a segmental revenue breakup for Q2 which you usually get?

Parmod Kumar Duggal: Okay, so out of total Rs. 1198 crores of turnover in Quarter 2, almost Rs. 1050 crore is coming from passenger vehicle. Rs. 96 crores from truck segment around Rs. 12 crores from bus segment and rest is from other segment including the four tractors and aftermarket.

Ronak Jain: Okay, perfect. Thank you, sir.

Moderator: Thank you. The next question comes from the line of Annamalai Jayaraj from 360 ONE Capital. Please go ahead.

Annamalai Jayaraj: I have two questions, sir. One is, in this CAFE norms, the government has announced some credits for vehicles which use energy efficient air conditioners. So, are we getting any traction, I mean, our discussions from any OEM generally on the OEMs that they're trying to improve upon the air conditioning systems, actually anything happening in that side, sir?

Parmod Kumar Duggal: Okay, you will ask both the questions or shall I ask one by one?

Annamalai Jayaraj: No, no, no. Okay, this is the first question. The second one is, on the radiators and all, we are trying to work on tractors, whether we are seeing any traction in that, sir?

Parmod Kumar Duggal: Okay, so first question on the CAFE norms, of course, there are credits already announced and there are few are under draft stage where air conditioner efficiency, compressor usage, hybrid compressors, etcetera, will be part of the credits available to the OEMs.

We are at a very advanced level of discussion with the OEM in terms of improving AC efficiency from here on, so that OEMs will get credits for the CAFE. The major contributor to the CAFE is one on the fuel economy, so the AC performance should boost the fuel economy, that is part one, and energy recovery, so these are the two elements where we are working right now and we are definitely at advanced stage and it will help the OEMs to get this realization.

The second question you asked about the penetration in the tractor side, so as we discussed before also that Mahindra is quite market leader right now for tractor air con, so their venture between Mitsubishi and Mahindra for exporting of these tractors to Japan market and to US market and also M-Star direct Mahindra export to US market is progressing well.

Of late we have seen quite significant volume increase in tractor as well. Now we are in discussion with other OEMs also because after this OJA launched AC tractor cabin launch in India domestic market, other OEMs also are attracted to this AC cabin for tractors, so we are in discussion with other OEMs as well to penetrate for domestic market opportunity as well.

So, tractor is emerging market, although the base is low because AC and non-AC there is no mandate and it is optional by the OEM, but we see a huge potential going forward in tractor segment.

Annamalai Jayaraj: Okay. I understood sir, only one thing on this energy efficient air conditioning systems, when the system goes for upgradation that, whether there will be any meaningful content increase for us or it may not be very, very significant content increase for us, sir when the energy efficiency comes?

Parmod Kumar Duggal: I will say it will not be significant increase in the content per vehicle, but it would be advantage to the OEM for credit and that's how I think there would be some value change, but overall content will not significantly change.

Annamalai Jayaraj: Okay. Thanks, sir. Thank you.

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

Raj: Sir, this quarter we have seen a long-term borrowing increase by Rs. 64 crores, short-term also increasing by Rs. 18 crores. Any particular reason why this has happened this quarter?

Parmod Kumar Duggal: So long-term loan is taken for our Kharkhoda plant, which we updated earlier also that term loan will be tied up for the Kharkhoda plant, so term loan is availed against the cash outflow towards the Kharkhoda plant.

Raj: Okay. Got it. And sir, one more question I had was we have seen this use case in data centers, so is that the technology that's synergistic to us? HVAC systems, because we have gotten an

HVAC order this quarter also from Maruti, so is that a business that we can explore with our existing compressor capability and expertise that we have?

Parmod Kumar Duggal: So, this is a different technology, data center or residential and commercial air con is completely different technology than automotive technology, so they are scroll compressors which are used for large building air conditioning, so we are not into that technology as such, but we may see that if this is exploring further.

Raj: Okay, so it can be a potential for us.

Parmod Kumar Duggal: Yes, of course.

Raj: Got it, sir. Thank you so much.

Moderator: Thank you. 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.

Parmod Kumar Duggal: Thank you so much for joining today. We have discussed about the impact of the geopolitical situation which is bothering us in terms of margin contraction. We are working on internal efficiency improvement to counter this partially, but in addition to that, we are in discussion with customers also to have one-time settlement on the extraordinary variations.

We need to see whether we will be able to get it through in Quarter 3 or Quarter 4, but of course, as the market is right now at the peak, demand side we don't see any challenge. Revenue side growth also we don't see any challenge in H1 as well as in H2, and also in next year projections are also very encouraging, so somewhere we need to keep on our investment

in terms of capacity expansion, which was earlier planned for next year, but now we will be preponing that so that we don't end up in capacity constraints to meet the customer demand. So, our actions are on. So, please keep trusting Subros and we will see a bright future ahead. Thank you.

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