



“Subros Limited
Q2 FY-24 Earnings Conference Call”

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**MODERATOR: MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI
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Moderator: Ladies and gentlemen, good day and welcome to the Subros Limited Q2 FY 2023-24 Post Results Conference Call hosted by Batlivala & Karani Securities India 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 touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you sir.

Annamalai Jayaraj: Thanks, Malcolm. Welcome to Subros Limited Q2 FY2023-24 Post Results Conference Call. From Subros Management we have with us today, Mr. Parmod Kumar Duggal – Chief Executive Officer, Mr. Hemant Kumar Agarwal – Chief Financial Officer and Vice President (Finance), Mr. Sukbhinder Singh Gill – Assistant Vice President (Finance).

We will start with the opening remarks by the Management to be followed by a question-and-answer session. Over to you sir. Congratulations for the good set of numbers sir.

Parmod Kumar Duggal: Okay, good morning, thank you Jayaraj. Good morning ladies and gentlemen, and a warm welcome to all of you for Subros Investor Call for Quarter 2 for FY2023-24.

The surge in automobile sales is a clear indicator of overall stability within the industry. We are observing a sharp recovery month-on-month in the auto market sales and this positive trend is anticipated to continue in the rest of the period. The festive season is a major catalyst for the automotive industry. While the expectations are high, initial trends of regional festive period has shown a mix but positive momentum. A lot depends on a one month festive period which start from the mid October, OEM has built inventory in anticipation of strong growth.

The initial modest 4% decline in the April ‘23-24. The overall vehicle retail has not only a reflection of the dynamic nature of the automotive industry, but also a precursor to the story of gradual recovery and growth and would unfold over the subsequent months. Accumulating a robust 20% Y-o-Y growth in the month of September. The conclusion of Quarter 2 in FY24 presents a mixed outcome where sales for this quarter reflect a sharp improvement and the profitability also shows a positive trend. The company achieved the sales exceeding Rs.814 crore with a 17% growth with a significant improvement in profit. The results of Quarter 2 FY 2023-24 have been shared with the Stock Exchanges and also posted on our website.

Let me elaborate the summary of results one-by-one:

First, I will update about the industry, relevant part of our business:

In this quarter, the passenger vehicle industry has shown growth of 6% on a production basis in comparison of corresponding quarter of the last year. Whereas Subros PV segment, thermal product, growth in Quarter 2 is 17% in comparison of corresponding quarter of last year. So, our performance is better than that of the industry and some differences due to the model mix.

Commercial vehicle bus is also improving because of tourism sector and public transport system has sharply recovered.

The AC fitment ratio has also improved, and industry has shown a growth of 63% on a production basis in comparison of corresponding quarter of last year. Subros registered a growth of 37% in comparison of volumes of corresponding period of last year.

Further on commercial vehicles truck N2 and N3 category, which is relevant for AC or a blower application, industry has shown a growth of 11% in Quarter 2 as compared to the corresponding period and Subros has registered a growth of 11% in Quarter 2 FY2023-24 in comparison of corresponding period.

Our AC fitment ratio has improved by 9% in this quarter, resulting in a partial compensation to the volume drop earlier.

In home AC space, we are still muted ourselves in view of the escalation in the commodity price and the stress on the profitability. This quarter we have done a major sale of Rs. 1.3 crores and we are now watchful on this industry as the new season is progressing. Revenue from operations has been recorded, as I said Rs. 814 crore in this quarter and corresponding quarter was Rs. 695 crore, overall there is a growth of 17% over a corresponding period.

Let me explain the recovery in each segment:

In this quarter the car and non-car segment contributed around 94% and 6% respectively. Maruti Suzuki and Suzuki Motors Gujarat contributed around 86% of the total sales and 14% is contributed by other customers. Our share of businesses in passenger vehicle, air conditioning product has improved by 2% during this quarter, and now our share of business is 42%. Share of business in truck AC segment has also improved by 3% and share of business has crossed 50% mark and we are at 51% now. Bus AC segment, our share of businesses is 18%.

Now, let me explain the operational performance:

As I mentioned before, there was a lot of challenge in the supply chain due to the global increase in demand. And there was experience of almost last two years they were muted on our profitability. Commodity price fluctuation has started easing out now and which is now reflecting on our financial results. The company has realized an EBITDA of Rs. 73 crores in Quarter 2 of FY2023-24 as against EBITDA of Rs. 44 crores in the corresponding period of last year. As a improvement of EBITDA by 66% as compared to last year same quarter and

50% as compared to the previous quarter. Profit before tax in Quarter 2 is Rs.41.66 crore which is 5.14% of the net sale. PBT margin with the corresponding quarter of the last year has improved by 183% and PBT against last quarter that is quarter one of FY2023-24 has improved by 111%. Profit after tax in Quarter 2, 2023-24 is Rs. 26.73 crore growth which is 3.3% of the net sales and as against the corresponding period of quarter it has improved by 172% and against the previous quarter it has improved by 99%. As a summary, revenue of Rs. 814 crores with a growth of 17%, EBITDA is Rs. 73 crores with a growth of 66%, PBT of Rs. 41.66 crore with a growth of 183%, PAT of Rs. 26.73 crore with a growth of 172%.

On the business side, there are few updates:

As I mentioned that we have been working on EBITDA improvements, PBT improvement for last eight quarters. And now the operational efficiencies start contributing in improvement of EBITDA and PBT level. Localization level has significantly improved over a period as I've been reporting in past, we have reached to almost 84% of localization level to our revenue so far. 16% is the total import percentage of the total revenue and our target is to bring it down by 6% and keep it around 10% in next two to three years' time.

On new business and product development, the mobility landscape will fundamentally be transforming in next eight to ten years. And we are now getting ready for all this technology transformation with the support of Denso. Many new arrangements, technology improvement and technology upgrades have been in pipeline. There is a significant success in our new business acquisition from our customer, business line of up to 2026 is almost complete, all new RFQs are either received or they are in progress or negotiation. And based on that, we feel that we will have sustainable growth in future almost in double digit form.

We are also now prioritizing to move into alternative fuel technologies and thermal business for alternative fuel is also lined up now. As of now we are the 15% of our total revenue is coming from alternative fuel technologies wherever thermal products are being used, whether it is a strong hybrid, battery electric vehicle or CNG vehicles. Few new launches and initiatives which are significant for our new strategic move in the various segments. Mahindra new tractor OJA M Star for US market, BV project and Mahindra pickup vehicle are the new businesses which we have lined up and the SOP work is in progress. Few areas we have already done the SOP and few are in pipelines. So there will be a significant improvement in Mahindra business in next two years' time. SOP of K2 tractor that is OJA has already started and few other SOPs of Fronx and Jimny also started during this half year.

Business engagement for truck aircon that is for N2N3 category is ongoing. And we are at very advance stage of negotiation and analyzing the specification for AC system applied to such trucks. Coach aircon, key development and approval from RDSO has also been successfully completed. And now we are participating in new tenders from Indian Railways. We are very optimistic to have a good business development in this space. Subros is also set to prioritize innovation, infrastructure expansion and sustainable initiatives to booster growth. In

accelerating our digital transformation, and adopting new technologies, our primary drivers will be cost reduction and quality enhancement. And we are also committed to the environment and the company has set up a target of carbon neutrality by 2040. That's all from my side. Now we are ready to take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Resham Jain. Please go ahead.

Resham Jain: Sir just one question on the overall, this quarter has been quite good generally for the PV segment and as an industry as well. And in this quarter, we did close to 8.6% margin, which probably would be at a good scale. And if I look at the overall kind of return ratios, even at this kind of margins, it is close to 12% only. So how should one think about margin going forward that even in a quarter like this, our overall return ratios seems to be closer to cost of capital only?

Parmod Kumar Duggal: So Resham thank you very much for your question. See, if you have followed our trend for last six to eight quarters, we have been struggling with the profitability and the margin improvement and we have been regularly commenting that we will improve on there. And now this quarter onward this trend we have set up now and we are trying to sustain this level and improve from hereafter. So going forward, I believe the situation will be much better, we'll be able to first realize the best results so far, which we achieved in 2020. And then surpass on that. So just wait for another quarter or so.

Resham Jain: Okay, so basically you are seeing the margin could further improve from current levels, that's the only way your overall ratios could improve.

Parmod Kumar Duggal: Of course.

Moderator: Thank you. The next question is from the line of Lakshminarayanan Kg from Tunga Investments. Please go ahead sir.

Lakshminarayanan Kg: Couple of things. First is, if you look at your operating margins, it is at a particular level and what are the levers you have to increase the margins from here and would be more of the gross margin hike you can actually get from here, is it pre contracted or what are the levers you have?

Parmod Kumar Duggal: Okay, so there are three major elements of as a key driver to improve margin one is of course on the operational efficiencies as we increase the asset sweat, definitely there will be a proportional improvement in the margin. Two, our ongoing effort on cost reduction and muting or compensating the impact of cost escalation that also is the second key driver where we have been successful in last quarter that's why you could see the reduction in metal sales ratio as compared to last quarter has substantially improved. Third of course, as we progress

further and the growth factors will be there and the capacity utilization in other segments other than car would be high that would also contribute significantly to the margin.

Lakshminarayanan Kg: What is the first lever you say I didn't hear it well sir?

Parmod Kumar Duggal: Operational efficiencies.

Lakshminarayanan Kg: Okay. And second, what is your share of business from the top client for you, for you it is around 85% or so, you mentioned from the clients perspective from the top customer what is the share of business to you?

Parmod Kumar Duggal: So, if I see three top customers. So, in Maruti we have total share of business of Maruti's purchase is around 74%, 75%. With Mahindra we are around 25%. With Tata CV price we are having around 48%.

Lakshminarayanan Kg: Good. And is there any lever on after sales for us is that something which we can take advantage of, or it's only OE sales is what as a company we would only focus?

Parmod Kumar Duggal: No, we are into aftermarket also and aftermarket business also has substantially grown as compared to last year we have grown by almost 45%. So we are very active in aftermarket as well.

Lakshminarayanan Kg: And what's your contribution to aftermarket for us?

Parmod Kumar Duggal: On the total sale?

Lakshminarayanan Kg: Yes.

Parmod Kumar Duggal: On the total sale, it would be roughly around 1.5% to 2%.

Lakshminarayanan Kg: Got it. And in terms of capacity expansion are we, what kind of capacity expansion you would envisage for the next two, three years?

Parmod Kumar Duggal: So, we are watchful of the industry moment and as few OEMs have already declared their plan for capacity expansion, namely Maruti has already announced Kharkhoda product in Haryana. So we are aligning all such requirements and based on that, capacity expansion plans are in progress. Few capacity expansion project we've already completed and we were in pipeline. So, we are as compliant.

Lakshminarayanan Kg: What's your capital outlay, last year you spent around 110 crores on CAPEX. So on an annual basis is that something which you would do or it will be much more than that 100, 120 crores?

Parmod Kumar Duggal: This is our normal range. So, as part of policy, whatever we earn we reinvest into the business. So around 100, 120 crore is our normal CAPEX which includes the replacement, which

include technology, which include new program development also. So we will be within the same range only.

Lakshminarayanan Kg: And you mentioned that around 90% of your sales is from passenger cars, am I right?

Parmod Kumar Duggal: Yes.

Lakshminarayanan Kg: Okay. And what is your outlook for the years, you mentioned that things are actually shaping up well, but based on the schedules you have, what kind of growth you expect for the full year for the industry?

Parmod Kumar Duggal: So, I'll not be very specific to the number but yes, as I mentioned before that we will be in double digit growth only. So maybe industry maybe doing between 6% to 8% but we will be crossing that milestone and we'll be in double digit growth overall.

Lakshminarayanan Kg: Right. So, one last question, because of all this greenhouse gas emission and a lot of things around the refrigerant gases, does it as a company do you actually have to change your process moving to lesser emission refrigerant gases or how do you think or you are actually, it doesn't matter for you because you manufacture the systems?

Parmod Kumar Duggal: No, whatever changes which are required for moving from R1 to 34A, that has already been done now because existing all export vehicle are using the new refrigerant. So that is already lined up. So there is no significant change required other than the oil change. So that has already been incorporated. So we are ready for all transition to this new refrigerant.

Moderator: Thank you. The next question is from the line of Aashin Modi from Equirus. Please go ahead.

Aashin Modi: So sir my first question is regarding the outperformance, so if we see our sales have grown by 17% quarter-on-quarter whereas our key customer has grown by 11% quarter-on-quarter. Could you help us understand where the outperformance had come from?

Parmod Kumar Duggal: So, there are certain businesses which we received, where the growth is substantial because OEM overall growth consisting of ABC segment and our business where the SUV businesses are more, SUV growth overall is more than 25%, 26% within the OEM, so that has contributed significantly in our growth.

Aashin Modi: Okay sir. And sir my second question is on the gross margin side. So, we used to make 30% sort of gross margins at year end currently we are at 25%, 26% level. So, as you said that there are two, three levers one is the pass-through of non-contractual items, because of the cost increases which were there and secondly, improving profitability in the newer businesses which we have won, which have higher import contents. So, any thoughts on that, how do we see gross margins improving from here on?

- Parmod Kumar Duggal:** So, gross margin improvement has seen now because as we reported last that there are certain cost escalation which are not compensated by customer, once it starts easing out that benefit also will be the same, because contractually we have nothing to pass on. So, that would be retained here. We have seen some softening on communities, softening on logistic cost, which was our substantial cost element last year. So, that may not be this year the contributor to the cost escalation. So, margin started improving and it will continue improving now, in next two to three quarters.
- Management:** And the introduction of the new budget line like railways and others will also add to the gross margin improvement.
- Aashin Modi:** Okay. And sir you mentioned that AC fitment ratio in trucks increased by 9%. So, where is it now, and where it was say last quarter?
- Parmod Kumar Duggal:** So, earlier it was around 15%, 16% now it has improved to 23%, 24% still it is an optional action by the OEM, not as part of the regulation. From January 25, this will become regulations so by the time we'll have more product range available to all truck segment. So, finally, we have to reach to 100% of AC fitment ratio, but right now it is in the range of 23%, 25%.
- Aashin Modi:** Okay. And sir lastly if you could share the non-car revenue breakup in terms of home AC, truck, bus?
- Parmod Kumar Duggal:** So, total non-car business turnover during the half year is around Rs. 85 crores and out of that total trucks is Rs. 42 crore, Rs. 20 crore is approximately bus and aftermarket is around Rs. 14 crore.
- Moderator:** Thank you. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.
- Abhishek:** Sir as Maruti is gaining market share in the SUV segment, how do we see bandwidth in terms of your content per vehicle and revenue growth?
- Parmod Kumar Duggal:** So content per vehicle will not substantially change but yes, there would be around 3% to 5% price delta which we have in terms of SUV versus #A segment or #B segment vehicle. So that would be the relevance but of course if SUV sale at Maruti will increase and since we are almost having 100% business of SUV it will have a direct reflection on our growth.
- Abhishek:** And you are also supplying radiator in SUV as well?
- Parmod Kumar Duggal:** Yes, radiator is going into SUVs substantially.
- Abhishek:** And what is the cost differences between the radiator of sedan radiator?

- Parmod Kumar Duggal:** Between 8% to 10%.
- Abhishek:** So, most probably that in this quarter that outperformance come in a passenger vehicle, is it because of also the market share gained by the Maruti in SUV segment?
- Parmod Kumar Duggal:** Yes, that's what I mentioned in my initial remarks that overall share of business also improved by almost 2% both in passenger vehicle and in commercial vehicle segments. So that is a contribution to outperformance.
- Abhishek:** And right now the tax rate is quite high around 30%. So what sort of the tax rate can we expect in FY25?
- Parmod Kumar Duggal:** So we expect 24%, 25% the tax rate is 25% as against 35% existing. So, there will be delta reduction of the tax outflow by 10%. Probably, if based on the existing rate, it will definitely positively impact the EPS by Rs.2 to Rs.3.
- Abhishek:** Okay. And as you are talking about the sharp improvement in the gross margin in the coming quarter and because of the fall in the commodity prices, and so, can we expect the double digit margin in FY25 or the earlier number of 11.5% or 12% kind of the margin what you had?
- Parmod Kumar Duggal:** So, I will just mention the double-digit margin are possible and we are inching towards there. Yes, in the next year definitely will be a substantial improvement from the current year.
- Abhishek:** So, can you share some measures you have taken in improvement in margin like consolidation of plant, shift optimization and renewable energy and all those things, if you can throw some light on it?
- Parmod Kumar Duggal:** So, there are three basic actions which are taken, substantial work has been done for import substitution and major projects, which are started either in the middle of this year or after the completion of first quarter. So, that means, next year we will have a full year's benefit on that, that is one. Two, the extraordinary cost which we incurred, which was tuned to around Rs. 20 to 30 crore last year in terms of logistic cost escalation that is not the case now, because all logistic cost are now has come down to the previous pre-COVID level. Third, our product positioning at the relevant plant, where the dispatches are happening to the customer. The logistic costs which we were incurring earlier because of the one location production has been decentralized now. So that we will be easing out on logistic cost optimization further and of course, the capacity expansion which has happened now, asset start sweating and we are utilizing these capacities much more to better margins.
- Abhishek:** Depreciation will also benefit to you?
- Parmod Kumar Duggal:** Yes, depreciation definitely will be optimized.

- Management:** Abhishek, let me add one thing more than 2019-20 was a COVID period after that commodity has gone up sky high. So, whatever cost optimization initiative company has undertaken in 19-20 or 20-21 after the COVID now also getting positive results for the company. So, the realization is now coming and will continue for future period also.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan Kg from Tunga Investments. Please go ahead sir.
- Lakshminarayanan Kg:** Sir, two questions one is the tax rate, when do you think the tax rate will normalize to 25%?
- Parmod Kumar Duggal:** Tax rate, will be 25% so effective from 1st of April.
- Lakshminarayanan Kg:** So FY25 will be?
- Management:** We will take this fall in quarter four, but it is expected from the next financial year we will move to the new tax regime of 22%. So, 25% will be after adding all surcharge and everything.
- Lakshminarayanan Kg:** Got it, so in terms of the logistics cost. So, what is the quantum of logistics cost you can actually say, what is the percentage of sales, the last financial year and how much you can actually save?
- Parmod Kumar Duggal:** So, logistic costs of our interplant movement as well as to customer delivery is in the range of roughly 2% of the total sale. So that would be the optimization target that it has to sustain at that level even with an increase in a number of deliveries and also either to optimize by product positioning at the relevant plant.
- Lakshminarayanan Kg:** So if I look at it you are doing approximately Rs. 2800 crores of sales, so it's around Rs. 56 crores is what you have spent on logistics?
- Parmod Kumar Duggal:** Yes.
- Management:** It has two elements, one is that which is being reflected as part of balance sheet. Second element is the import base, which is definitely forming part of the material cost. So, that is also a very substantial amount on our import. So as you know the container call which was at \$7,000 one and a half years back is now definitely getting reduced to \$3,000 or \$2500. So with the rationalization of the import freight also, it has a positive impact.
- Lakshminarayanan Kg:** So, what is the amount and how much you think it will be there for this, you said 2% on sales, or is it an absolute number you want to actually cap it?
- Parmod Kumar Duggal:** No, that's what I said 2% of the total sales is the number which you calculated around Rs. 58, - 60 crores. So, that's the number which we have, we are trying to optimize between 8% to 10% of that cost level going forward through various optimizations targets.

- Lakshminarayanan Kg:** Sorry, so it means that even if your sales increase, you would actually cap it around Rs.60 crore?
- Parmod Kumar Duggal:** Yes, around that.
- Moderator:** Thank you. The next question is from the line of Aditya Makharia from HDFC Bank. Please go ahead.
- Aditya Makharia:** I just wanted to check what is our import content currently?
- Parmod Kumar Duggal:** So import content is 16% of the total turnover as of now.
- Aditya Makharia:** Okay, so with the Yen going to 150 versus the dollar, we all know the Yen is at a substantial low. So can that be one major factor for the expansion in our margins and also the fact that you are guiding to double digit margin or you come close to that, a lot of that is premised on the Yen weakness?
- Parmod Kumar Duggal:** No, that will not be fully true because, Yen is back-to-back compensated by customers. So, only the advantage would be of one quarter because next quarter it has to be passed on to the customer. For the communities which they are compensating, where they are not compensating that would be the added advantage. But as of now, whatever imports we have almost 90% is compensated by customer.
- Aditya Makharia:** Okay. Second question sir. In terms of this blower policy for AC for trucks, they said that AC will become mandatory from 2025 So, last time also, we had seen that there was a lot of lobbying and then eventually the policy was watered down to making blowers only compulsory. So, do you think this time even if the policy comes through it may be that only the high end trucks which will let's say a +40 tonne truck will have AC compulsory and for the others, they may just go a little lenient?
- Parmod Kumar Duggal:** No, I don't think this time there will be any relaxation because 2017 it was announced and five years, six year it was muted because of the request from the OEM, but this time, ministry is quite firm on implementation and we have seen the action from customer side also towards the implementation of this policy, so all the customers are gearing up for N2N3 category, product development in few cases have already started, in few cases specifications are being finalized. So, I don't see there would be any deferment or relaxation on this policy as of now,
- Aditya Makharia:** Okay. So N2 truck will be +12 tonne or +20 tonne?
- Parmod Kumar Duggal:** 7.5 tonne above.
- Aditya Makharia:** So, it will come even on the ICVs in that case, even a 16 tonne, the short distance trucks will also have AC?

Parmod Kumar Duggal: Yes, it will be N2N3 category both.

Moderator: Thank you. The next question is from the line of Varun Arora. Please go ahead.

Varun Arora: Sir in the railway segment you actually said something on commentary, but I missed your point, so can you repeat that please?

Parmod Kumar Duggal: So in railway segment, as you are aware about that, we are supplying aircon for driver cabin so far. And for last two year our product development for coach aircon was ongoing and which was due for RDSO approval. Now we are almost concluded that approval process and now we are ready for our product installation. So now we'll be participating in the tenders which are forthcoming now. Within next two to three months, the tenders will be floated. And we see now based on our product development status, we'll be able to get substantial business out of that.

Varun Arora: Okay, sir thank you. So based on the Q2 FY2023-24 performance, so you also said that by the next year you will be able to achieve that double digit but can we assume that in the next year, like by fourth quarter like last quarter of FY2023-24 we will be able to achieve 10%?

Parmod Kumar Duggal: I don't want to color with any number as of now but yes, you just can trust us that efforts are on and we want to see double digit numbers coming from the margin side as quick as possible. So just wait for some more time.

Varun Arora: Okay, thank you. Sir my next question on your new development of AC compatible with hydrogen fuel process, so what sort of revenue opportunity you're looking for, and since the PM has launched the scheme for Seva Scheme, which has been launched in this last quarter somewhere around. So what sort of revenue you are looking from that?

Parmod Kumar Duggal: So, I don't see this as a number opportunity, but the important part as a strategic move from Subros side is that our capabilities for developing first time a complete indigenous kit Make in India, design in India, suitable for Hydrogen buses and complete integrated solution not only for thermal AC for the cabin also, for the battery cooling that has been developed and this is our proud moment that this first initiative we have completed. These kits are now installed in the large OEM who has floated these fleet of buses in Leh that trials and verification work is almost complete now, and now we are ready for the next round of implementation. Luckily, we also see that the hydrogen buses will be floating now as maybe sample because there is no clear policy that from EV we are migrating to hydrogen but yes, as a product segment it would be available, most likely the next fleet will be floating in Delhi also. So our product is ready, our alignment with the customer is ready and hopefully we'll see first as a haptic that these solutions are available in the Indian market and then based on that growth opportunities will be as per the OEM plans.

Varun Arora: Okay. And sir for this product only. So, what will be the margin, if you can share anything?

Parmod Kumar Duggal: So, margin definitely will be because high technology products normally called as a niche product, then margin will be definitely better as compared to the existing. So, if you are running 10% to 12% EBITDA in regular products, so it would be around 15% to 20% EBITDA in such niche market product.

Varun Arora: Okay. And sir last question. So, can you provide information on the market condition in trend, so that might affect the company's performance in the upcoming quarter, so in either case either positive or negative both?

Parmod Kumar Duggal: Can you just repeat your question, I missed out the market?

Varun Arora: Yes, so on the market condition and trends, so that might affect the company's performance in the upcoming quarter, in the positive and negative both space sir, if you can give any comment?

Parmod Kumar Duggal: What I see as a short term in next quarter number three, quarter number four, the market trends would be positive based on the current condition unless this geopolitical issue is not very significantly increase and that has impact on overall political scenario. Unless that is kept as aside I see full recovery in the market at least in this year. And whatever the projection industry has made at the start of year we will be able to achieve that number, that is for short term and going forward. All the OEMs are quite bullish at least '24-25 as of now in the current situation, that semiconductor issue is also now eased out and availability is quite in alignment with the customers schedules. So, I don't see any challenge 24-25 should also be positive in all the segments whether it is bus, truck or passenger vehicle. So, I don't see challenge unless of course, the geopolitical issue is a risk element which we cannot estimate as of now.

Varun Arora: Okay, that will be very helpful sir. Any other nonauto venture or business segments that Subros is currently exploring or considering in the future anything in the pipeline right now going on?

Parmod Kumar Duggal: Not for the purpose of the market. But yes, future technology products, new technology product are under development, but at a very initial stage but not yet concluded for commercialization.

Moderator: Thank you. The next question is from the line of Abhishek from Dolat Capital. Please go ahead.

Abhishek: Sir what is your guidance for the second half revenue, will it be better than the first half?

Parmod Kumar Duggal: Yes, it should be, based on because the festive season has come into the quarter three. So definitely it will have some reflection in quarter three and quarter four, normally as the industry always best quarter among all so, quarter H2 should be better than H1, but again condition applies.

- Abhishek:** Okay. So, what is the market potential of the railway business is basically for the coach aircon?
- Parmod Kumar Duggal:** So it's a large segment it has, government is refreshing the whole infrastructure and Vande Bharat are going to grow, coach aircon business is going to grow. And this market is around 100 to 150 crore based on the current estimation and based on the government plan. So it's a large market and if we get into that we will be able to take a substantial portion of that.
- Abhishek:** And what is the margin in this particular segment?
- Parmod Kumar Duggal:** Comparatively high, so you can take it around 15% to 20% EBITDA.
- Abhishek:** Okay. And there's a sharp ramp up in the EV versus now, so where the content per vehicle is very high. So what sort of the opportunity do you see in India in this particular segment?
- Parmod Kumar Duggal:** So EV versus our product is at final phase we have given protos to the OEM now to incorporate this into their bus program. So all three, four customers, we have been engaged now with this. And yes, you are right EV potential is improving, all key transports are now moving to EV fleet only. And next, maybe as the Prime Minister announced around 10,000 buses will be floating in next three to five years' time all across the states. So, our engagement is on with all customers and we see a good potential in that also.
- Abhishek:** How much is the content per buses in this segment?
- Parmod Kumar Duggal:** So, from IC to EV bus the content will be around 20% higher.
- Abhishek:** And absolute figure what is the number?
- Parmod Kumar Duggal:** You can take around 50,000 or maybe 70,000 to Rs.1 lakh delta.
- Moderator:** Thank you. The next question is from the line of Lakshminarayanan Kg from Tunga Investments. Please go ahead.
- Lakshminarayanan Kg:** Sir, two questions, one is in terms of royalty, which you pay to Denso, so it's around 1.2, 1.3% of turnover. So what is the class, how long it will be whether it's like a five year reset, or a three year reset, how do you think about it, when is it coming for reset?
- Parmod Kumar Duggal:** So there's no reset formula here, the royalty is for the period of the product life that is there, and this is applied on the net value addition.
- Lakshminarayanan Kg:** Okay. So, how does one think about as a percentage of revenues or how does one?
- Parmod Kumar Duggal:** Could be in the similar range 1.25% of the revenue which is now it would be in that range between 1.25% to 1.5%.

- Lakshminarayanan Kg:** And how often you revise it?
- Parmod Kumar Duggal:** No, there is no revision formula it is product to product different royalty rates, which are applicable. So, it would be kind of mix in this 1.25 to 1.5%.
- Lakshminarayanan Kg:** Got it. So, your material cost was around 74%, 75% last year half it was around 77%. Now, it has come down to lesser number, when I look at your historically your it has actually gone up to something like 70% also. So, is it conceivable to go back to those levels of 70% material margin?
- Parmod Kumar Duggal:** No, it would not be because maybe in a periodic manner the prices will always be impacting the overall MSR ratio. We are not likely to go back to 69% 70% at least in short term view, but we will be definitely improving from 74% which is current level.
- Lakshminarayanan Kg:** So, in the next two, three years what is the range, band you would actually expect to operate at?
- Parmod Kumar Duggal:** I will not be very explicit in quoting any number which can color the market as of now.
- Moderator:** Thank you. As there are no further questions from the participants. I now hand over the conference over to the management for the closing remarks.
- Parmod Kumar Duggal:** So thank you very much to all of you to have patience with Subros's result for last six to eight quarters. And of course that was a difficult time for us also after the COVID and during the COVID and after the COVID period. The impact of all escalation we have tried for job or we have discussed with the customers, partial compensation we received during that, few are not and which has been absorbed in last two years' time. Things are getting easy now, we will be reverting back to the best time which we realized before and try to surpass that as quick as possible. Thanks for your patience and stay connected with Subros. Thank you.
- Management:** Thank you everyone Happy Diwali to all of you and we are confident that we increase our revenue and profits and increase our investors wealth. Thank you, Happy Diwali to all of you.
- Moderator:** Thank you very much. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.