



“Subros Limited
Q3FY 2025-26 Post Results Earnings Conference Call”
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Moderator: Ladies and gentlemen, good day, and welcome to Subros Limited Q3 FY 2025-26 Post Results Earnings Conference Call hosted by Batlivala & Karani Securities. 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Mr. Annamalai Jayraj from Batlivala & Karani Securities. Thank you, and over to you, sir.

Annamalai Jayraj: Thanks, Pari. Good morning, all participants. Welcome to Subros Limited Q3 FY 2025-26 Post Results Conference Call. From Subros Limited 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. Sukhvinder Singh Gill, Vice President Finance.

I'll now hand over the call to Mr. Duggal for the opening remarks to be followed by question-and-answer session. Over to you, sir.

Parmod Duggal:

Good morning, everyone. Good morning to all of you. Thank you, Jayraj. Good morning, ladies and gentlemen and welcome to Subros Investor call for quarter 3 FY 2025-26. Indian auto industry is witnessing the extraordinary period in last quarter and still it is ongoing. This is a historic performance by almost all the segment of auto industry. After a period of moderate start in initial two quarters, the industry has shown a very clear sign of recovery, supported by festival growth as well as impact of GST 2.0.

The overall sentiment across passenger vehicle, commercial vehicle and mobility is linked with the strengthening the reinforcement of India's position in automobile and manufacturing hub. Passenger vehicle and commercial vehicle both have witnessed improved traction, while export remains the highest.

Overall industry growth of 18.86%, out of which PV segment has grown by above 19% and CV segment has grown by 20%. However, since we had a slow start in first two quarters, overall growth in 9 months is around 9.25%. And the key driver, what we understand is the impact of GST, rising adoption of SUV and alternative powertrain and steady infrastructure-led demand for commercial vehicle, etcetera.

Subros has a consistent performance in quarter 3. We have achieved a revenue growth of over 15.43% during the quarter. And 9 months, April to December, our growth is 10%, which is higher than the industry. In CV segment, after implementation of mandatory AC N2 and N3 category, our revenue growth has recovered and we have recorded 136% growth in quarter 3, and 9 months we have 92% growth.

Geopolitical tensions may impact the Indian automotive industry primary through the supply chain volatility, cost pressures or market uncertainties. Freight costs, shipping routes and delivery time lines may have some challenges going forward. We are preparing for that as a risk mitigation. The results of quarter 3, 2025-26 have been shared with the stock exchanges and posted on our website. Let me elaborate these results one by one.

Subros has performed in line with the industry performance. Revenue growth is 15.43% with a significant improvement in margin, result in aggregate push towards our operational efficiencies and cost on efforts. The company has achieved a revenue of INR948 crores during the quarter 3 2025

Our share of business in passenger vehicle thermal market is 41% during the quarter and share of business in Truck AC market is 42% during the quarter. There is a 15% improvement in profitability due to our consistent push in cost optimization efforts. The company has realized EBITDA of INR 87.19 crores in quarter 3, which is 9.23% of the net sales. As against EBITDA of INR 80.64 crores during the previous quarter, which has 9.85 percentage in corresponding quarter.

So there is overall improvement in absolute term, EBITDA by 8.13% as compared to the corresponding quarter. Profit before tax in quarter 3 is INR 52.75 crores, which is 5.58% of the net sales. Profit margin as against the corresponding quarter has improved by 15.17%. There

was a provisioning done for the new wage code liability of gratuity and leave encashment, which is shown as exceptional item.

The total impact of such provision is INR 8.08 crores. Profit after tax in quarter 3 is INR 34.84 crores, which is 3.69% of the net sales. And PAT margin has also improved by 6.08% during the quarter. Now on the business update, we have been reported constantly about the truck notification for N2, N3 categories.

So these all the SOPs have started. The ramp-ups have already been achieved now. Our business growth in hybrid cars and as well as electric vehicle business segments, including CNG has been growing now. Our total revenue from these particular segment is 24% of the total revenue.

Our railway business continued to emerge as a strong growth vertical and with the accelerated investment in railway infrastructure and electrification, there is a lot of potential and opportunities coming in for Subros. We have already announced that we bagged a large tender of INR 52 crores for annual maintenance contract for the railway AC installations for to be executed in next 3 years.

Another major milestone which we have announced to the stock exchange last week is about our expansion of product profile. This was one of the due items for a long time. A lot of questions on this particular action was expected. This is with respect to the electric compressor, which we are using in EV and hybrid vehicles.

So we would like to update that Subros, Denso and Toyota Industries that is has agreed for localization of e-compressor of 20cc and 27cc and 34cc in India through Subros. We have also secured a e-compressor business from Maruti Suzuki through Suzuki Motor Corporation for the future models, which are planned in 2027-2028 and 2028-2029.

We have decided to set up this facility in our Karsanpura plant. So we'll be expanding our Karsanpura plant as plant 2 to set up an initial capacity of 400,000. The construction activity of this plant 2 will start shortly. We have three phases of this localization. As the first phase, our investment would be around INR 175 crores and gradually when we do backward integration, the subsequent investments will be planned as the business progress will happen.

In addition to this, we are also enhancing our capacity of fixed displacement compressor, which we are producing right now in Noida. This also will be produced in Karsanpura so that the utilization of that facility would be better. And also, this would be a de-risking activity for our OEMs because right now, we are producing all our compressor of around 1.7 million from one location only.

So we'll set up 0.5 million of capacity of fixed displacement compressor in Gujarat in addition to electric compressor. So this investment will be in phased manner and this would be out of our regular capexes. So before I conclude, let me summarize the results. Overall revenue of INR948 crores with a growth of 15.43%. EBITDA of INR 87.19 crores with a growth of 8.13%, PBT of INR 52.75 crores in quarter with a growth of 15.17% and PAT after

exceptional item booking is 34.84% with a growth of 6.08%. That's it 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 Arjun Khanna from Kotak Mutual Fund. Please go ahead.

Arjun Khanna: Thank you, sir for taking my questions and congratulations on the award of the new business. So there are two parts to this. There is the ICE and there is the EV. So just on the EV compressor bit, sir, in terms of the margin profile, given that this is a scale project, how do you look at the margins coming from this business?

Parmod Duggal: So Arjun, there are two parts to this. First, just localization will start gradually with one model SOP, then second model SOP and then it will go on. The setting up that's why I said in my brief is that we are going very careful while making investment to start with what is bare minimum required to assemble this compressor and then gradually going for backward integration.

Finally, we have to be more competitive in this market. And since this localization is a breakthrough for Indian OEM in terms of increasing their localization content, of course, margins will be comparable to our existing business. We'll not be able to compromise on the margin side. But still, there is a time to review this whole market situation going forward.

Arjun Khanna: Sure. So over a 3-year period, as we scale up and stabilize, you would expect the margins of this to be slightly superior to your existing margin profile?

Parmod Duggal: Of course, it would be because slightly it would be a premium product and the value is also very high.

Arjun Khanna: Sure. And given that we are getting this product through our technology partner, so is there additional royalty? Or how do we understand this in terms of related party transactions?

Parmod Duggal: So royalty arrangement would be similar to our existing products. So there will not be any differential. So right now, also, we are paying royalty in the range of 3% to 6% variably on different contracts. So this would be also following the same. There will not be any special royalty additionally other than that.

Arjun Khanna: Sure. Sir, my second question is in terms of our volumes. So if we look at the largest customer for us, they saw very robust volume growth, and there was supposed to be very strong growth due to the N2, N3, which you also articulated in your opening remarks. So essentially, have we seen issues in terms of uplift of our product where they may have inventory on their end because the numbers don't seem to completely match up, sir?

Parmod Duggal: So it is model mix issue because suddenly, due to this GST rationalization, there is a mix change. Earlier, it was more on SUV, suddenly small car also started selling sales. So the volume is all about the last week of sale and then subsequently production and then inventory holding at the other time. So from our share of business point of view, there is no major change point with our largest customer also. So it's only impact of model mix.

- Arjun Khanna:** Sure. And as that gets normalized, you should see that growth coming through?
- Parmod Duggal:** Of course, of course.
- Arjun Khanna:** Sir, just a final question, if you can just help us with the revenues of our various parts of our business?
- Parmod Duggal:** Sure. So in quarter 3, we have total sale of INR 948crores. So out of that INR 846 crores is coming from passenger vehicle, INR 74 crores is coming from trucks, INR 12 crores is from buses and rest is from all other segments.
- Arjun Khanna:** So railways potentially will scale up over a period of time?
- Parmod Duggal:** Of course. Now since large tenders are in place, so I believe this will.
- Arjun Khanna:** So we should see revenues from the fourth quarter, sir?
- Parmod Duggal:** Should be. As the market is progressing positively, we should be able to clock better.
- Arjun Khanna:** Sure. Thank you and wishing all the best, sir.
- Parmod Duggal:** Thank you.
- Moderator:** The next question is from the line of Neel Shahfrom Purnartha Investment Advisers.
- Neel Shah:** Hello. Am I audible?
- Moderator:** Yes, sir, you are audible.
- Neel Shah:** Yeah. I actually missed your comment from the opening remarks. So can you just repeat the market share in various segments?
- Parmod Duggal:** So our market share in PV segment is 41%. In truck segment, it is 42% and in buses, it is 11%.
- Neel Shah:** Okay. And what I wanted to ask was, can you give an update related to the time line of the compressor plant that you are planning.
- Parmod Duggal:** So compressor plant setups will happen. The construction work will finish by end of this calendar year and then installation activities will be there. So as per the customer milestone, the SOP would be by December '27.
- Moderator:** The next question is from the line of Mihir Vora from Equirus.
- Mihir Vora:** Sir, my question is on the capex. Basically, in the previous calls, we had mentioned that we would be looking at an EV industry of 2,50,000 lakhsand then we would move forward for the e-compressor capex.

So are we seeing that kind of target achievable? What has moved us to do the capex earlier? Like previously, it was something which was expected to be later on in the stage. So some color on that.

Parmod Duggal:

So EV industry and hybrid segment put together has shown quite remarkable growth in last 2 to 3 quarters. And I think it has already crossed 3% to 4% of the total market size as of now. We are expecting now that this space will be there, more and more hybrid. And since the important part of our decision is that this compressor is not only dedicated to electric cars only. This compressor manufacturing plant will be able to cater to hybrid as well as EV. So whether hybrid will grow or EV grow, it will be neutral to us.

The second part is that we are able to finalize or innovate into our manufacturing facility where common line will be able to cater to the whole segment that is hybrid, EV and EV also between 27cc and 34cc. So up to large segment also will be able to cater to this from this line.

So that's why since the lead time of the setup is quite high, we are starting today and SOP would be December 27. So that's how we decided to conclude our discussion with our collaborator for localization approvals. And finally, since the RFQ was also in place, so it was the decision taken in that spirit.

Mihir Vora:

All right. Sir, just a follow-up on this. So we have mentioned we have got an order of around INR1,200-odd crores for 7 years period. But just understanding at the peak, what would be an annual revenue from this facility?

Parmod Duggal:

So as a peak, it would be roughly INR240 crores INRINR250 crores from the 1these 3 models only. But if as the facility we are going to set up is for 400,000. So gradually, even if we apply this in the running models of EV and hybrid also this electric compressor, this revenue can scale up to INR 600 crores to INR 700 crores.

Mihir Vora:

Okay, okay. Sir, my second question is on the gross margin front. So there has been some compression on the gross margin since the last 2 quarters now. And basically, I just want to try and understand what kind of raw materials do impact us and what should we track in terms of the movement of RM prices going ahead?

Parmod Duggal:

Okay. So there are 2 aspects to that. So as you know that quarter 2, quarter 3 commodity prices were on the upside. So even though we have a compensation arrangement with a few customers at a 6 monthly basis and a few customers on a quarterly basis, the recovery of the inflation cannot be done 100% because, again, in the next quarter, the increase has happened. So that will impact in quarter 4. So unless the commodity and foreign exchange is normalized, at least in 1 quarter and we could recover everything and then show some marginal improvement, this situation will continue.

So the impact on, I'll say, quarter-on-quarter basis is between 0.5% to 0.75%. Since the market is volatile in commodity and foreign exchange, we need to see the margin growth on a contribution side more because that is directly reflected through the revenue growth and so, but material cost definitely will be one of the elements which may be impacting the gross margin in that proportion.

- Mihir Vora:** Right. Sir, basically, in the commodity basket, there would be also some gases which you would have to look at? Or is it only the metal part here?
- Parmod Duggal:** So it is basically for us, there are only 4 commodities which are relevant. That is one is aluminum, which is driven through LME, then copper, which is very volatile as of now. Then PP, that is plastic metal, which is directly related to the oil prices and so. And the last one would be the steel. So these are 4 which are impacting us the impact will continue, but majorly it will get compensated through the revenue or the reimbursement from the customer.
- Mihir Vora:** Right, sir. And lastly, sir, now that we are into February now, so how are we seeing trends across OEMs now in terms of demand still is it continuing in terms of volumes Or are we seeing some kind of
- Parmod Duggal:** No. For Jan is already completed. So you may have the OEM figures already available. Feb and March is more or less in the similar range. There is no negative thing, which we have observed so far. So I believe the Jan trend or maybe quarter 3 quarter 4 would be slightly better than quarter 3, but I cannot specify on the percentage.
- Moderator:** The next question is from the line of Mayur from Wealth Managers.
- Mayur:** So sir, actually, I also had a question on margin. In the opening remarks, did you mention anything in the numbers which was there, which has also impacted specifically I just missed that part if at all, did you highlight any particular number in terms of employee cost or something with respect to the cost, which is impacting the EBITDA margin?
- Hemant Agarwal:** The highlight was that provision for gratuity and encashment as per the new labour code, which amounts to INR 8.08 crores for the quarter for the past services. So that was the information in the opening remarks. Our employee cost per se quarter 3 is lower than the previous quarter.
- Mayur:** Right. So sir, actually, a slightly broader question here. If we leave these 2 quarters where the volatility in material cost and currency has started to impact us. But slightly over the last 3 years, we have been quite successful in increasing our margins. And it has made us quite confident towards the journey of around 12%, which was appearing more visible.
- Now in the light of 2, 3 things in terms of the change in the volume mix, which you are witnessing even in small cards or also because of the increasing volatility in the raw materials and forex will it be fair to say that our aspiration of that 12% gets pushed by at least a year period now given what is happening and already 2 quarters of?
- Parmod Duggal:** Yes, yes. Because the commodity and the currency is backed by reimbursement from the customer, definitely it will have slightly over the quarter impact. Once the commodity and currency get stabilized, the impact will be over. Rather the way commodities prices are now reducing, definitely, the gap which we are incurring since last 2 quarters, which is around 0.6% to 0.7%.

Definitely will be positively impacted to the company. Second is you talk about the margin expansion. If you see for the quarter 3, we have shown 9.23% EBITDA margin. If you compare with

Mayur: So meaning to say excluding other income. Sir, I was looking at excluding the other income, only the operating margins?

Parmod Duggal: Okay. So what I'm trying to say is you see even on excluding the other income, in the previous quarter, we have already disclosed that we have INR14 crores of income, which was incentive of our Gujarat plant, which was onetime we have posted for the earlier period. If you eliminate that, you will see the expansion margins even from the previous quarter.

Mayur: I understand, sir. From previous quarter, there is some improvement. Surely. I was talking more in the light of our guidance and directionally guidance in terms of where we were moving. We moved very strongly till 10% or closer to 10%, not till Q1 or till March '25 and then the journey has reversed again, and we were appearing to be more confident towards 12%. So while there is a 0.6%

Parmod Duggal: That is precisely what Hemant had mentioned. This volatility in the market in terms of foreign exchange and commodity definitely is an impact for us because what we get is what we spend. So there is no markup available on that. Whereas if you see the revenue growth, you always see the gross margin, which is in the range of around 20%, 22%. But on the reimbursement, you will not have that margin available.

So ultimately, we'll see in absolute terms, we are growing in EBITDA but in percentage terms, we will have some fluctuation. But this is market driven. Of course, our efforts in terms of maximizing our profit and 12%, we have not still lost our hope of 12%. But yes, there would be some time gap, but we'll catch up to that for sure.

Mayur: Sir, at a project level, if we exclude the compressor side, which is recent expansion side, that will be something it will take 2 to 3 years, 2 years as the capacity comes up and the more -- as the volume ramps up 2 to 3 years. But if we include that part, at a company level will it mean that now given that, that will be also in the early stages, the again, sorry, it's not that I'm just trying to understand the 12% aspect actually pushes because of 2 aspects.

One is the volatility and the second is even the new project coming up. It will take 2 years for it to come to company level margins. So we should actually look at 3 to 4 years now, will it be a correct understanding? I understand that the new project will take some time. But at a company level, will it mean that it will take some more time for those to come up?

Parmod Duggal: No, there is no relationship directly, indirectly with that investment versus the margin for existing business because once we decide any project feasibility, that is on a stand-alone basis. So whether that investment will yield a return in 2 years, 3 years, that is purely, purely a separate decision point. But first, our focus is on as this business whatever we are growing in ICE and EV products other than compressor, we need to realize better margins.

So that's our key focus. So for that, whatever is required, which is controllable is on operational efficiencies as well as on the cost down plan through the localization. This is what we are pushing. So we are not diluting our vision. We are still keeping our long-term target as is. But of course, the efforts will be slightly more now in terms of the geopolitical and volatility available.

Mayur:

Sir, just a comment, not a question. Sorry, actually, where the investor a little bit sentiments and our expectations are every year, 0.5 basis point, 50 basis points, 60 basis points as we have been seeing earlier, the improvement was much more. And the expectation was to continue to improve on those lines, 50 basis points, 60 basis points, which was not over expectation.

So we were looking at 10, 10.5 and then 11. And then even if we say 0.75 impact of raw material and forex and everything else and there is a lag, it should have still come closer to 10, excluding other income, again, I'm saying because the trajectory of operational efficiency and localization and improvement in SUVs and everything was playing out.

And then we come down to less than closer to 8.5 again after other income, I'm saying that was something which is a little bit below expectation. And we hope that the management takes the right measures to ensure that either the direction is more in the line of what we are saying or we come up to those levels as expected.

Moderator:

The next question is from the line of Mr. Annamalai Jayaraj from B&K Securities.

Annamalai Jayaraj:

Sir, I have a few questions. I'll start with one clarification sir. This hybrid vehicle already there will be an Indian. Still they will be using a local compressor or how is it?

Parmod Duggal

So hybrid compressor, hybrid vehicle requires only e-compressor because although there is engine available, but it is interchangeable energy between engine to battery. So you cannot switch compressor and not have 2 compressors. So to ease on that, only one compressor, which is electric compressor. But of course, the CC of that compressor is lower. So that is used in hybrid vehicle.

Annamalai Jayaraj:

Understood. And currently, it's being imported and once we localize, I mean, probably by March we'll have try everything. So probably after we localize, it will be a part of that.

Parmod Duggal:

Of course, that would be a long-term plan. As I said, that's how the revenue from INR250 crores can be potentially go to INR600 crores, INR700 crores because then all running model also will go for the switch to local compressor, but that will depend upon the milestone they have for minor change or a full model change.

Annamalai Jayaraj:

Okay. And then, if I heard you correctly, you said commercial vehicle has grown around 6% year-on-year, correct no sir?

Parmod Duggal:

Yes. So commercial...

Annamalai Jayaraj:

Sorry.

Parmod Duggal:

Go ahead...

Annamalai Jayaraj: No, no. So on commercial vehicle last year, this compulsory AC was not there. And so now it is in place. And our understanding is that earlier they were using a blow-up motor and now the air conditioning means that the content for us will be maybe 3x, 4x like that. But why is it only 1.3 So the transition is happening not fully, it something like that or why is there a difference

Parmod Duggal: So both statements correct. Truck AC, when it will happen, the content per vehicle is going to be 4x, more than 4x. So that's how truck 9 months, we could able to do around INR180 crores as against I think the last year was roughly around INR 70 crores or INR 75 crores.

So that results are coming, but the implementation happened from 8th June, but there was no mandate that it cannot be sold non-AC. So sales based on the inventory available has gone up to mid-October or end October. So impact during this year is practically, so far, is only 4 months. So we will see the full year impact, which will be coming in practically next year where the whole year we'll be using this N2, N3.

Annamalai Jayaraj: But even year-on-year, why is the mismatch because compared to last year, it is only 130%.

Parmod Duggal: No.130% is a good growth because last year...

Annamalai Jayaraj: No, No, I understand but for realization improvement. The answer is good even the commercial vehicle sector has grown a bit.

Parmod Duggal: No, no. The commercial vehicle segment has grown in only last quarter. Otherwise, if you see the cumulative impact of commercial vehicle is not so. So initially 2 quarters, it was slightly moderate.

Annamalai Jayaraj: Okay. And there is no change in our market share further 42% remains...

Parmod Duggal: Yes, it is remaining.

Annamalai Jayaraj: Okay. And other than our major customers on our sports, I have been listening, have you got any new business in the recent times, sir.

Parmod Duggal: For which segment.

Annamalai Jayaraj: On the passenger vehicle?

Parmod Duggal: So passenger vehicle, our existing customers are growing quite rapidly. So we are increasing our business in Mahindra. So we already secured 2 or 3 platforms for future that will start SOP from next year onwards.

Other than that, I think the growth numbers that we have from our existing customers are quite substantial, and we need to cater to that. And but other than passenger vehicle, of course, our expansion, as you said, in truck AC as well as railway, that has to be first capped because these segments have much larger potential.

So in truck segment, we have added new customers. We got into Daimler, we got into Ashok Leyland. And also railways, now we are into driver cabin then to coast. So our expansion effort is all through. We are not only focusing on passenger vehicle.

Annamalai Jayaraj: Sire are participating in our tenders for Vande Bharat?

Parmod Duggal: Yes, yes. We are now participating in tenders for Vande Bharat also.

Annamalai Jayaraj: And Mahindra you talked about. Mahindra, are we in the ranges or we are more with ICE vehicles for Mahindrasoftware?

Parmod Duggal: So we are in Mahindra EV also, but not on full system, but on a few selective components. So we are there in all 3 platforms of Mahindra.

Annamalai Jayaraj: I think there is nobody in the question queue. So any closing comments you want to make, sir?

Parmod Duggal: So overall summary, as I mentioned, that market is right now bullish, and we are aligning to the market expectations. Of course, next year, the base would be high, we are right now estimating our plans for the next year also. Based on that, our capacity expansion, also the new technology expansions are being planned for the next year.

Of course, everybody had made a comment on the margin shrinkage and so, but this is more on external factors, not on internal efficiencies. So whatever we could do in terms of margin improvement, still our efforts are on.

So we are very optimistic that the organization in next 1 to 2 years will be shaping up much better, aligning to the industry, unless there is any geopolitical risk, which may impact adversely, but that would be to the whole industry, not to the Subros alone. So thank you very much for joining and participating for in this Investor call.

Moderator: Thank you. On behalf of B&K Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.