



Subros Limited
Q1FY23 Earnings Conference Call

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CORPORATE PARTICIPANTS:

Mr. Parmod Kumar Duggal,
Chief Executive Officer

Mr. Hemant Kumar Agarwal,
Chief Financial Officer

Mr. Shiv Ram Singh
Company Secretary

Mr. Vidrum Mehta,
Representative, Aditya Birla Money

Q&A PARTICIPANTS:

Abishek Jain– Dolat Capital

Aashin Modi– Equirus Capital

Vaibhav Gupta– Bowhead India Fund

Moderator

Good morning, ladies and gentlemen. I'm Kritika, moderator for the conference call. We welcome you all to Q1 FY23 Conference Call of Subros Limited, hosted by Aditya Birla Money. As a reminder, all participant clients 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 telephone. Please note that this conference is recorded. I would now like to hand over the floor to Mr. Vidrum Mehta of Aditya Birla Money. Thank you and over to you, sir.

Vidrum Mehta

Thank you and good morning, everyone. On behalf of Aditya Birla Money, we welcome you all to Q1 FY23 Earnings Conference Call of Subros. From the management side, we have Mr. Parmod Kumar Duggal, CEO, Mr. Hemant Kumar Agarwal, CFO and VP Finance, Mr. Sukhvinder Singh Gill, who is an AVP Finance and Mr. Shiv Ram Singh who is Company Secretary. Before we start, may I remind you of safe harbor, there may be some forward-looking statements that have to be understood in conjunction with uncertainty and the risk that company faces. Now, I'll hand over the call to the management for opening remarks followed by interactive Q&A session. Thank you and over to you the Duggal sir.

Parmod Kumar Duggal

So, good morning, ladies and gentlemen and warm welcome to all of you to Subros Investor call for Q1 FY2223. The financial year 2022-2023 has started with a positive note as overall market scenario is improving. The market is showing sharp recovery and order booking at the OEM end is also very high. Passenger vehicle industry has grown by 33% on production basis in Q1 FY2223 and commercial vehicle truck industry has grown by more than 100% during the quarter though the base for the last year was low due to the COVID impact.

With the demand still beyond in passenger vehicle segment amid changes and regulatory pressures are still prevailing. Many automobile manufacturers are upbeat to embrace new technologies, especially in the electric mobility space, which is expected to witness a slow of launch in both four-wheeler and two-wheeler segment. Supply chain challenges continue to persist while on the one hand we have a sharp revival of demand, on the other hand the high commodity prices, semiconductor branches have aggravated the problem for automobile manufacture, which is causing a major concern for industry per se and same as for the auto component supplier as well. So, during the quarter, we see some ease outs in terms of commodity fluctuation, but rupee weakening is continued to be economic risk, which is impacting the imports being costly, especially in dollar.

The results of Q1 FY2223 have been shared with the stock exchange and also posted on our website. Now, let me elaborate the summary of results one by one. First, I'll update about the industry relevant parts of our business. In this quarter the passenger vehicle industry has shown growth of 33% on production basis in comparison with the corresponding quarter of the last year whereas Subros PV Segments Thermal business in Q1 has grown by 40% in comparison of corresponding quarter of last year. So, we have done better than the industry performance due

to model make an SOP of new projects in Q1. Commercial vehicle bus has registered 182% growth during the year whereas Subros growth in this area is 25% in comparison with the last corresponding quarter. Tourism sector, schoolwork business and public transport has started now becoming operational, but AC fitment ratio is yet to be improved.

On commercial vehicle truck segment for N-2, N-3 category which is relevant for AC blower and AC segment for our business has shown upside trend after two years. The industry has grown by 105% in Q1 as compared to the corresponding quarter of the last year. And Subros growth in this area is 150% in the segments during the quarter. Growth mainly is because of more AC fitment ratio, which has improved from 18% to now 25%. Consumer preference is shifting towards AC truck as compared to normal truck, because the owner, fleet owners see some economic value by having AC trucks by using more mileage in this.

This year big impact of environment change has been seen in various parts of the country impacting home appliance sales. This sector is showing promising growth now and in this quarter home Aircon sale has grown by 142% as compared to corresponding quarter of the last year. Total sales of this segment in this quarter so far are Rs. 69 crores. Revenue from operation has been recorded at Rs. 708.53 crores in this quarter corresponding quarter it was Rs. 480.45 crores, but, in the previous year, this quarter, there was a lockdown in the month of May, which has impact of almost 22 days sale loss at the time. Overall, there is a growth of 47% over corresponding quarter of the last year.

Now, let me explain each segment-wise contribution to sales during the quarter. In this quarter car and non-car segment contribution ratio has improved from 76% and 24% respectively. So, in the non-car segment we are we were almost 18% to 19%, now, it has improved to 24% contribution overall. Maruti Suzuki and Suzuki Gujrat has contributed 75% of total sales during the quarter as against 82% in the corresponding quarter. Our sales of business in passenger vehicle, passenger vehicle AC market is maintained at 40% in this quarter, and the share of business in truck segment is 51% and in bus segment it is 25%.

Now, I'll talk about operational performance. New development of China lockdown during the quarter one due to the COVID outbreak in China has significant increase the lead time of import shipment and subsequent fluctuation of schedules by the OEM. Due to the semiconductor availability for a shorter period has impacted our overall inventory level. And which has been around 15% to 20% increase in our overall inventory levels during this period. We have been continuously reporting that commodity price fluctuations during last six months have impacted substantially on the material sales ratio. So far that trends were upside and even the quarterly compensation, it was not supporting MSR ratio, because every quarter there was increase recorded.

Now, since we see some ease out on the overall trends, maybe in next two quarters, we will see some benefit coming into our material sales ratio and same as on the EBITDA level. The company has realized EBITDA of Rs. 45.35 crore in Q1 FY2223. And if we see this EBITDA with a corresponding quarter of the last year it has improved by 44%, and if we compare this by the previous quarter of last year, then it is down by 9%. PBT in Q1 for FY2223 quantity is Rs. 17.38 crores which is 2.46% of the net sales. Same way if we compare this profit margin as against the corresponding quarter of the last year, it has improved by 250%. And if we compare this with the last year quarter four, it is down by 18%. PAT in Q1 is Rs. 11.43 crore which is 1.62% of the net sale.

So finally, to conclude the summary of the financial results, overall revenue Rs. 708.53 crore which is 47% growth over the corresponding period. EBITDA level of Rs. 45.35 crores, which is 43% growth as against corresponding period. PBT of Rs. 17.38 crores, which is 250% growth against corresponding period and PAT level of Rs. 11.43 crore which is 257% growth against corresponding period.

Few updates about the business, the market is showing sharp recovery just I already mentioned not only in passenger vehicle, but bus segment and truck segment is also showing very promising growth trends now. We at the start of the year have indicated a projection of double-digit growth during this year. And in quarter one, we have shown a growth of 47% though it is not completely comparable because of the lockdown period available in the corresponding period. But we see this is more realistic projection that we continue to say that we will have a double-digit growth during this year.

On the new business sides, the mobility landscape is fundamentally transforming in the next 10 to 15 years. So, autonomous driving connected cars, electrified cars are going to contribute to the industry. The business side in the rail coach is progressing fine now. We already got the approvals from RDSO. Now we are eligible for coach Aircon tenders for future for commercialization. And also, for development activities for all future programs where the business is already committed is also progressing very fine as per the customer milestone. In addition to that, Chennai plant has started supplying for Toyota Bangalore production which is on behalf of Maruti Suzuki from this month that is from the month of August. The supplies have already started as a first pilot lot and that so will be think within next year 10 to 15 days' time only.

Also, the new Brezza production also started at Maruti where we started SOP in May 2022. And in this business, we have compression business as Delta which was not there with us before so that means there will be incremental revenue coming in from this new SOP. That's all from my side. Thank you very much and now we are open for questions.

Moderator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask a question. If you would like to withdraw your request, you may do so, by pressing * and 1 again I repeat if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. First question comes from Aashin Modi from Equarius Capital. Please go ahead.

Aashin Modi

Yes, thank you sir for providing me the opportunity. So, so, we have mentioned that this quarter, there was sequential decline in gross margin due to the revenue mix. So, which were the sectors, I mean to which were the business which impacted the margin adversely and what sort of margin profile we had in different businesses?

Parmod Kumar Duggal

So, gross margin as I mentioned has declined as against the last year, but as you will see from the corresponding period it has gone up. So major contribution of gross margin is barely because of home AC sale, which has increased in this particular quarter because of the seasonal impact which may not be there in the full year but there would be a gradual impact coming in from there, major contribution mainly from the Home Aircon.

Aashin Modi

Okay. And sir, going forward, since most of our imports are in Yen, we would have a benefit of Yen depreciation. So, what sort of impact would that have on our margins going forward?

Parmod Kumar Duggal

So, since foreign exchange to the large extent is compensated by the customer. So, both upside and downside trends will be adjusted in the pricing as per the formula exists between various customers. So, when Yen is the costlier or cheaper both sides adjustment will be factoring but only Yen can be to the extent of one quarter usage.

Aashin Modi

Okay, so you don't have a large gain next quarter?

Parmod Kumar Duggal

No.

Aashin Modi

Okay. And sir, my last question was on the share of business side. So, you've said that our share of business in bus is 25%. So, who are our major customers?

Parmod Kumar Duggal

So, we are supplying to FORCE motor. We are the largest supplier to FORCE motor for Bus Aircon. We are also supplying to Volvo-Eicher, Daimler and also to the aftermarket.

Aashin Modi

So, any addition that is possible?

Parmod Kumar Duggal

Yes, there are possibilities. So, we are now expanding this customer base. And as we are moving more aggressively into the EV space, so the large OEMs, who are now launching the large buses for safe transport in EV side. So, our engagement is on now to aggressively push the market in that area.

Aashin Modi

Sir, do we see any order coming in for that?

Parmod Kumar Duggal

Not exactly right now, because still the specifications are at the final stage because EV is at very initial stage in India, and WOEM is just trying to figure out the best possible combination of these products going-forward. So still, I think we will wait for another quarter or so for some order booking on this.

Aashin Modi

Okay. Thank you, sir. Thanks for answering my questions.

Parmod Kumar Duggal

Yeah.

Moderator

Thank you. So, ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We're having a question from Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain

Thanks for opportunity. Sir, if you see the past trend of realization growth.

Parmod Kumar Duggal

Abhishek, your voice is very low. Can you be louder, please?

Abhishek Jain

Okay, sir. So, if you see the past trend of the realization growth or return it is quite low versus ingredient are important. It can also be seen in the last eight quarters' gross margin that shows a significant under recovery on RM cost, specifically for the ABS and nylon material. So now prices of commodity are on bouncing, can we expect top gross margin expansion in the coming quarter?

Parmod Kumar Duggal

Yes Abhishek, as I mentioned in my remarks that so far in eight quarters, each quarter was showing on the upside. So whatever compensation we were getting in a quarter, again, the actual consumption or the next quarter was on the upside. So that trend was always impacting the gross margin. Since now the recovery started, we'll see next two to three quarters when there will be ease out and we need not to pass on immediately to the OEM, it will be in the

subsequent quarter, we see some contribution coming to the gross margins. So, we are very hopeful now the margins will start improving.

Abhishek Jain

So, in past eight quarters, we have lost around 500 to 600, this gross margin. So, can we expect around 200 to 300 expansion in the gross margin in the coming?

Parmod Kumar Duggal

I will not be very specific with the numbers, but I can only say that there would be positive growth in that I will not be specifying exactly 1%, 2%, 3%, but yes, there will be a better result out of it.

Abhishek Jain

Okay. Sir, in initial comments you had told that you had a negative impact on the rupee depreciation. But now you are saying that you are able to pass it on to the client. So, there's a little bit confusion. Can you throw some light there?

Parmod Kumar Duggal

So, when we say that, there was an impact of rupee depreciation, because that was to the overall industry not specifically to the Subros because imports getting costlier finally, impacting on the selling price to the customer and finally, it will impact the overall price of the car which has to be increased and the market will start having competitive environments. But to us rupee becoming, I mean the foreign exchange becoming costlier will impact to the extent that the compensation will be to the extent of cost, it will not have mark-up there.

So, if 100 rupees is the impact, you will get 100 rupees in the selling price. So, whereas MSR if at all is 72%, so, 28% markup will not be there. So, that's how the impact will be on gross margin in percentage terms. So, that was the comment made in the AGM and we see when there would be ease out and the reduction will happen and also in the same fashion the percentage will improve in future.

Abhishek Jain

Okay sir. And sir, as there's a past [inaudible 00:19:31] pain can be seen in the passenger vehicle? Sale of SUVs have gone up to 45% and Maruti is also focused on the new SUV segment. So, how much increase in content per week we can expect in the passenger vehicle segment?

Parmod Kumar Duggal

Your question, can you repeat? Your voice is quite low, if you be louder and clearer on your question, it will be helpful for me. You mentioned about the SUV?

Abhishek Jain

Yes, sir. So, Maruti is now more focused on the SUV segment. SUV sales has gone up to the 45% in industry. So, how much increasing content per vehicle can we expect in the passenger vehicle SUV segment?

Parmod Kumar Duggal

So, for us thermal products SUV or non-SUV, but if it is like a Sedan, impact of contribution will not be significantly different because condenser is condenser or compressor is compressor in both the cases. But in SUV as I mentioned this new Brezza where we have an incremental scope of business where compressor was not there with us and now compressor will come with us. So, annually Rs. 70 to 80 crore delta business which we have secured will start helping us in improving there. So, definitely more sale of Brezza definitely will have a more sales, incremental sales to Subros.

Abishek Jain

Okay, sir. And you have also started supply to the Bangalore plants alliance with a Maruti and Toyota and you are supplying all parts like HVAC ,compressors, radiators excluding the condenser. So how much content will be done?

Parmod Kumar Duggal

So, roughly it would be Rs. 180 to 200 crore per year is the delta business which we got through this new business alliance of Toyota and Suzuki.

Abishek Jain

So, sir, content per vehicle is right now around Rs. 13,000 rupees, so how much increase can we see in this plant?

Parmod Kumar Duggal

So, you're talking about the overall content per vehicle that you have, where you're calculating Rs. 13,000, it will increase, it will again increase to the extent of 8% to 10%.

Abishek Jain

8% to 10%. Okay, sir. And next question is relative with the home AC segment. So backward integration would be the only solution for the margin expansion. And you're also in discussion with the few technology providers. So, can you throw some light on the progress now?

Parmod Kumar Duggal

So, till the discussions are on, we are not able to conclude anything concrete here, because right now, there are a lot of differential focus which is happening because of the PLI scheme, which OEMs or brands have already submitted to the government and the investment plans are in the in the final shape now for implementation. So still discussions are on but as you said correctly, the backward integration is the only solution here to improve margins in Home AC

Aircon. Business definitely is there, top line growth can happen anytime. But always there will be stress on the margin statements. So that's why this action is important.

Abishek Jain

What is your revenue target for the home AC segment for FY23 and 24?

Parmod Kumar Duggal

FY2324, since, as I mentioned, quarter one, we have already done roughly Rs. 70 crore, Rs. 69 crore precisely. So, we'll be able to do around Rs. 130-140 crore in this year.

Abishek Jain

And last quarter you had mentioned that you will Rs. 180 crores kind of the numbers in which, and you had also capacity of around doing.

Moderator

I'm sorry to interrupt. Abhishek sir, could you please be louder? Your voice is feeble.

Abhishek Jain

In the last quarter, you mentioned around that, you will do around Rs. 180 crores. You are able to do around Rs. 250 crores to 300 crores. So why you're slow in this segment?

Parmod Kumar Duggal

Yeah. So Abishek as I mentioned, just now that the revenue you can increase to any number Rs. 182-250-300 crore is not a problem in this space, but as long as you're able to compromise on the margin statements. So, since these, these businesses are at very high NSR, and the gross margins are not comparable to our other segment margins. So, we are not willing to sacrifice margins substantially. That's why in the increasing trend market where the fluctuations are very high, extraordinarily high, we want to go slow as of now, but of course, there is no compromise on the overall revenue potential that we can realize anytime.

Abishek Jain

Okay, sir. And my last question is related with your capacity utilization, it is around 85% to 90% now, and as we are looking at an industry growth of 15% to 20% for FY23. So can we expect further CapEx of around Rs. 200 or 300 crores?

Parmod Kumar Duggal

No. Reason being that for this year, FY2223 CapEx has already been tied up and the capacities are either available or at the final stage of availability. So, for this year we don't see any big things which is coming and if we take a sustainable industry growth target between 6% to 8% in

next four to five years, so, only the incremental investment would be there, and which is already every time we say that between Rs. 70 crore or 90 crore is our regular CapEx which we are doing that is majorly for the debottlenecking of machines which are impacting overall capacity.

200-300 crore requirement is there when there is a greenfield project, and we have no plans for expansion of any greenfield, new project as of now. So, we will concentrate on this level of investment per year only, it would be less than 100 for next two to three years, but it will, may not be crossing this beyond.

Abishek Jain

But your [inaudible 00:25:55] is already Rs. 40 to 50 crores and we're talking about Rs. 70 to 100 crores kind of CapEx only. Don't you think that it is a lower number?

Parmod Kumar Duggal

No, it is not, because as I mentioned, we are not investing in the full line. So, there are certain machines where the capacities are already available for debottlenecking, we don't need a big investment. So, the capacities would be in this range only.

Abishek Jain

Okay sir. Thanks sir. That's all from me.

Parmod Kumar Duggal

Okay.

Moderator

Thank you. Ladies and gentlemen, if you have a question, please press * and 1 on your telephone keypad. I repeat if you have a question, please press * and 1 on a telephone keypad. We're having a question from Vaibhav Gupta from Bowhead India Fund. Please go ahead.

Vaibhav Gupta

Hello, sir. I want to understand how would our realisation vary in the strong hybrid variant of Grand Vitara?

Parmod Kumar Duggal

So, in strong hybrid differential in thermal products is the radiator and the compressor. So, radiator is a high efficiency radiator which is costlier by around 10% to 15% from a conventional radiator. Electric compressor is required for hybrid where we don't have business in Grand Vitara for that particular portion. For other model of Vitara which is YHC we have the business not for the electric.

Vaibhav Gupta

Okay, sir. So, like 40% to 50% bookings have been for the hybrid, a strong hybrid variant, so we won't be present there is that understanding, correct?

Parmod Kumar Duggal

No. We will be present other than compressor.

Vaibhav Gupta

And the compressor, okay. And the realisation of compressor is around 6000-7000?

Parmod Kumar Duggal

No, it would be roughly 4000 to 4500.

Vaibhav Gupta

4000 to 4500. Okay, sir. And sir, for the Mahindra Scorpio and XUV 700, which parts are we supplying there and what is the kit value?

Parmod Kumar Duggal

So, kit value for Mahindra new launch for SUV 700 is only the pikes which we are supplying so it will be roughly around 1500 to around 2000 under, and for Scorpio it would be roughly around 4500.

Vaibhav Gupta

And what is the part for the Scorpio?

Parmod Kumar Duggal

That is the headset part.

Vaibhav Gupta

Headset part. Okay, sir. And sir, Mahindra is also going to unveil an electric car on 15th August, so would we be present there?

Parmod Kumar Duggal

This is a proto car and as of now maybe the initial launch but the main platform which are planned for future discussions are still on to finalize the step.

Vaibhav Gupta

Okay, sir. Okay. Thank you so much, sir.

Moderator

Thank you, sir. Ladies and gentlemen, if you have a question, please press * and 1 on a telephone keypad. I repeat if you have a question, please press * and 1 on a telephone keypad. We are having a follow up question from Abishek Jain from Dolat Capital. Please go ahead.

Abishek Jain

Thanks for the opportunity again. Sir, now lead time off in both different status to go down, which had to improve your working capital.

Parmod Kumar Duggal

Abhishek, your voice is low. I'm sorry.

Abishek Jain

Sir, now lead time of both shipment is started to go down. Will it help to improve your working capital situation?

Parmod Kumar Duggal

Yes, that is true. As I mentioned that since there was a set of lockdowns and lead times were also very high despite even the continuous availability was a challenge. So, that's why we were forced to have a higher inventory level to mitigate that risk. But if overall lead time start improving and we are able to get the material as in the previous time within 21 days selling time, so, definitely inventory levels will be at the normal situation. So, that will ease out working capital requirement.

Abhishek Jain

Sir, what is your net debt right now, including short term and long term?

Parmod Kumar Duggal

Hemant, can you answer, please?

Hemant Kumar Agarwal

Yeah. Short term loan is nil, there's no loan, on long term it is Rs. 21 crores as on first quarter end.

Abishek Jain

So, your total net debt is only Rs. 31 crores?

Hemant Kumar Agarwal

Pardon?

Abishek Jain

Your net debt is only Rs. 21 crores, right?

Hemant Kumar Agarwal

Only 21 crores, yes.

Abishek Jain

Okay. And my last question is regarding the inventory situation. How is the inventory situation for that, [inaudible 00:31:13], is it on a normal level out or on a higher level?

Hemant Kumar Agarwal

Inventory as of now is at a higher level which will be reduced in the next four to five months. So, we have a stock because of the global situation that delayed container arrival and the China issue. So, we have kept some safety stock at our stores.

Abhishek Jain

Okay. And last question is related to book-keeping, what was the revenue from the passenger vehicle Aircon, radiator and bus [inaudible 00:31:52].

Hemant Kumar Agarwal

Over to you Duggal sir.

Parmod Kumar Duggal

So, radiator sales during this quarter are around Rs. 82 crores. And if we exclude radiator from Rs. 708 crores so, that way, the remaining is non radiator and thermal AC business.

Abishek Jain

And for bus and truck segment how much so was revenue?

Parmod Kumar Duggal

For which segment?

Abishek Jain

Bus and truck.

Parmod Kumar Duggal

Bus? Okay, so buses is Rs. 10 crores in this quarter and the truck is Rs. 24 crores.

Abishek Jain

Okay, sir. Thank you. That's all from my side.

Moderator

Thank you, sir. Ladies and gentlemen, if you have a question, please press * and 1 on a telephone keypad. I repeat, if you have a question, please press * and 1 on your telephone keypad. We will wait for a moment while the question queue assembles. There are no further questions. I would like to hand over the floor to the management for the closing comments.

Parmod Kumar Duggal

Thank you. So, we have already covered the most part in our initial comment as well as while replying the questions we have tried to address that overall industry scenarios, so no more comments from our side.

Moderator

Thank you. So, ladies and gentlemen, on behalf of Aditya Birla Money, this concludes your conference call for today. Thank you for your participation and for using Door Sabha conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

1. This document has been edited to improve readability
2. Blanks in this transcript represent inaudible or incomprehensible words.