



Subros Limited Q4FY22 & Full Year 2022 Conference Call

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CORPORATE PARTICIPANTS:

Mr. Pramod Kumar Duggal,
Chief Executive Officer

Mr. Hemant Kumar Agarwal,
Chief Financial Officer and VP Finance

Mr. Vidrum Mehta,
Representative, Aditya Birla Money

Q&A PARTICIPANTS:

1. **Abishek Jain** - Dolat capital
2. **Ashutosh Tiwari** – Equirus
3. **Sanjay Awatramani** - Envision capital
4. **Vidrum Mehta** - Aditya Birla Money
5. **Aditya Makharia** - HDFC
6. **Shyam Sundar** - Sundaram Mutual Fund

Moderator

Good morning, ladies and gentlemen, I'm Moumita, moderator for the conference call. We welcome you all to Q4 FY22 and full-year FY22 conference call of Subros Limited hosted by Aditya Birla Money. 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 the operator by pressing star and then zero 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 from Aditya Birla Money. Thank you and over to you, sir.

Mr. Vidrum Mehta

Thank you. Good morning, everyone. On behalf of Aditya Birla Money, we welcome you all to Q4 FY22 and full-year FY22 earnings conference call of Subros. From the management side we have Mr. Pramod Kumar Duggal, CEO, and Mr. Hemant Kumar Agarwal, CFO and VP finance. 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 the uncertainty and the risks 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, Duggal sir.

Pramod Kumar Duggal

Thank you Vidrum. Good morning, ladies and gentlemen. My name is P.K. Duggal. A warm welcome to all of you for Subros Investor Call for Quarter-4 '21-22 and also for the year '21-22. The Indian automotive industry drove into FY23 with a very positive mindset on its quest to reach pre-pandemic level of sales volume, having built a solid foundation in FY22, despite the semiconductor shortage hampering production. While on the other hand, we see a revival in the vehicle demand, on the other hand, the high commodity prices and semiconductor crunch has aggravated problem for auto manufacturers, which is causing a major concern for the industry per se.

The increasing price of commodities in India has resulted a record-high price of the new and used vehicles in the country. Despite all odds in the industry, the industry has grown in FY22 at 19% during the year. Still key challenges for the supply chain disruption are commodity price escalations, logistic disruptions, crude oil price volatility and availability of ships and containers. The result of Q4-2022 and for the year have been shared with the stock exchange, you must have chance to see that. Let me elaborate on the summary of the results one by one.

First, I'll update about the industry relevant part of our business. In this Quarter, passenger vehicle industry has shown a growth of 2% on production basis in comparison of corresponding quarter

of the last year; however, on an annual basis, TV industry has registered a growth of 19%. Whereas Subros' passenger vehicle segments, thermal product growth in Quarter Four is 3% in comparison with corresponding quarter of the last year; however, it has grown by 24% on annual basis. So, we have done better than the industry performance due to model mix and also SOP of the new projects in Quarter Four.

Commercial vehicle, bus, has a registered 47% growth during the year, whereas Subros has grown by 61% in comparison to last corresponding year. Though the tourism sector, school bus business and public transports are not still fully operational, but ambulance sales has hampered to help this happening to fill up the deficit. And also, each state government is improving on their medical infrastructure to deal with emerging situation of COVID in future. On commercial vehicles segment for N2 and N3 category, which is relevant for AC or a blower industry, the industry has shown upside trend after two years. The industry has grown by 43% in FY22 as compared to corresponding last year, whereas Subros has grown by 29% in this segment during the year. Growth is mainly because of more AC fitment ratio and consumer preference of shifting towards AC truck as compared to normal truck.

After extended lockdown in view of opening marketplaces in various parts of the country, the overall home appliance industry has also shown growth. In this year, the home Aircon sales has grown by 3% as compared to the corresponding quarter of the last year and 43% on annual performance basis. The total sales in home Aircon segment by Subros is 127 crores. Revenue from operation has been recorded at 681 crores in this quarter, whereas, corresponding quarter was 659.93 crores, there is overall 3% growth over the corresponding quarter and 24% growth for the year.

Let me explain each segment-wise contribution to the sales during the quarter. In this quarter, car versus non-car segment contribution is 89% and 11% respectively. Maruti Suzuki and Suzuki Motor, Gujarat has contributed roughly 78% of the total sales during the quarter as against 79% in corresponding quarter. There is a 1% improvement here. In this quarter, home AC has contributed 60 crore rupees of revenue, which is approximately 9% of overall revenue of Subros.

Our share of business in passenger vehicle air conditioning market is 40% although it is lower by 2% from FY21, because of drop of share of Maruti overall and in truck statement, we are at 43% share of business and bus segment, we are having 27% share of business. Now, let me talk about the operational performance. As I mentioned before, there are a lot of challenges in supply chain, which has never been experienced by anyone so far. Commodity price increase, logistic cost escalation has impacted the margins in big ways. Significant increase in lead time of import shipment and subsequent reduction of schedule by OEM due to semiconductor shortage has impacted the overall inventory level, which has increased by almost 10% to 15% and blocking the cash flows. Still, we are able to survive and maintain our cash management efficiently.

Commodity price circulation on the upside to the extent of 30% to 40% during the last six months have impacted substantially on the metal sales ratio. Though there is a compensation formula on the regular commodities with the OEM, but there is a Quarter or periodic lag in some cases it is six-month lag. Further on non-regular commodity, which is used by our suppliers, there is a cost impact to us as well.

We are in discussion with the customer for compensation of such fluctuation also for future. Container demand and supply imbalance causing steep price increase of import consignments, diesel price increase leading to increase in logistic costs are also key contributors of margin stress. The company has realized EBIDTA of 49.88 crores in Quarter Four of FY22 as against EBIDTA of 40 crores in last quarter, which is 24% more than this quarter.

If we compare EBIDTA margin of the year versus last year, it is decreased by 3%. And if we compare EBIDTA with the corresponding Quarter Four, it is down by 24%. Profit before tax in Quarter Four is 21.19 crores, which is 3.12% of the net sales. If we compare PBT margin against Quarter Three of current year, it has improved by 83%. If we compare PBT margin for the year versus last year, it has decreased by 19%. And if we compare PBT with a corresponding period of Quarter Four, it is down by 46%.

Profit After Tax in Quarter Four is 16.94 crores, which is 2.49% of the net sales. So, let me now briefly summarize the overall results. The revenue is 681 crores in Quarter Four and 2,238 crores in FY22 with a growth of 25%. EBITDA is 49.88 crore in Quarter Four and 158 crores in FY22. PBT is 21 crores in Quarter Four and 45.39 crore in 12 months, and PAT is 16.94 crore in quarter four and 32.59 crores in FY22.

On the overall business updates, business performance of Quarter four is better than Quarter three. Semiconductor availability and other challenges are still ongoing and substantial impacts of commodities as I mentioned before. We have now relatively better visibility about the future scenario, based on the OEM projection, which we've received so far. The mobility landscape with a fundamental transform over the next 10 to 15 year is the reality now, and we are now evolving our product strategy for EV segment also.

All of our preparation for launching of EV product is in alignment with customer plan. Our products are at final stage of validation with the customer. And we are hopeful that our penetration of EV segments both in passenger vehicle, bus segments and other mobility area would be benefited as for the transformation, which is happening in the sector. Business expansion and rail coach AC is also improving now, we are at the last leg of RDSO approval and based on that we will be participating in large tenders, which are planned for this year and the next year. Development activities of all the new programs because in the last call we advised, or we informed that we got

large orders from the OEM for up to 2025 SOPs. So, all programs are as per the schedule, and we are progressing based on the customer milestones.

Just an update on the Maruti-Toyota Alliance project which will be produced in Toyota Kirloskar, Bangalore. Our plant preparation at Chennai is completed now, and we are waiting for the SOP, which is scheduled in August or September. So, all the preparation for these supplies have already been lined up. And we will be starting this project as per the customer milestone. Thank you very much from my side, and now we are ready to take 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 the question. If you would like to withdraw your request, you may do so by pressing * and 1 again. Our first question from Mr. Ashutosh Tiwari from Equirus, please go ahead. Mr. Tiwari has taken back his question, we'll move to the next person, it's Mr. Abhishek Jain from Dolat Capital. Please go ahead.

Abhishek Jain

Thanks for opportunity and congrats for the decent set of numbers in tough quarter. Sir, in FY22, domestic PV growth was 19% on production basis, while the revenue growth was 24% in passenger vehicle AC segment, that means realization growth was only 4% to 5% in FY22. And that shows that a small part of RM inflation was passed to the clients. So, how much under the coverage is expected to pass in FY23?

Pramod Kumar Duggal

Can you repeat the last part of your question, it was not very clearly audible?

Abhishek Jain

So, revenue growth was 24% in passenger vehicle AC segment versus a 19% production growth in industry that means realization growth is only 4% to 5% and that shows a small part of RM inflation was passed to the clients.

Pramod Kumar Duggal

Okay. So, it is not 19% is industry growth on the quantity and 24% growth at Subros is not only relevant for the price correction, but it is also based on the model mix, because there are certain

models where we have secured business now, which was not with us before. So, that is one and second, of course, there is a price correction in fact due to the inflation sector. So, it is mix of both.

Abhishek Jain

So, what was the volume and the realization growth in the midst of 24% in passenger vehicle AC segment?

Pramod Kumar Duggal

So, I may not have a very direct answer, but I may say that it may be out of 24%, 2% or 2.5% would be for the price correction and rest would be the volume growth.

Abhishek Jain

Ok sir. Sir, on the margin side, gross margin is contracting from last many quarters, which used to be 30%. Now, it has come down to 23%. So, that shows that still a lot of the under recoveries is there, and just wanted to know what negotiation is going with the client, especially for the part on the non-regular commodity?

Pramod Kumar Duggal

There are 2 aspects to this. One is that whatever compensation we are getting from customer, it is not marked up with 30% gross margin, it is one to one. So, if we are getting say 100 rupees impact in cost, the 100 rupees is given in the price. So, that will definitely impact on the overall gross margins. Second point is yes, there are certain under recoveries which are related to tier 2/ tier 3 commodities used by the supplier at tier 2/ tier 3 level they are not part of our contract for compensation. So, we are now negotiating with the customer to even cover for that also. But, since the overall pricing pressure is there on the OEM, still they are at a negotiation stage, but we are hopeful that next 2 quarters we'll be able to reconcile that also.

Abhishek Jain

So, what would be the key driver for the margin expansion and what is your medium-term margin target?

Pramod Kumar Duggal

So, key driver for us now is to very aggressively push for the localization for whatever remaining part we have. We have almost 17% to 18% import content still available. So, one of the key drivers

is to push localization and we have made a very aggressive plan now for the next three years, that we need to bring it to less than 10% quickly. So, that is part one. Second is that since now, last 2 years, we have been struggling for even fixed cost management, because volumes were dropped, and they were lockdowns available and almost no production month also available. So, during this time, due to the austerity measures, all operational efficiencies have been built up now. So, when this volume will grow up, definitely there'll be a proportionate benefit on the margin side.

Abhishek Jain

Can we expect the double-digit margin what you were making earlier in FY23 or FY24?

Pramod Kumar Duggal

I will say, it will not be fully recovered, but yes, there will be a substantial improvement going forward. Now, maybe in quarter three and quarter four, you will see a substantial improvement in both gross margin as well as for EBIDTA.

Abhishek Jain

Ok, sir. My next question is related with the home AC segment. You have done it on 1.3 billion in this year, and what is your target for FY23?

Pramod Kumar Duggal

So, we are planning almost 20% growth in home AC segment now, in FY23.

Abhishek Jain

But in the last year, the first half was quite low, and the base is quite low, so can we expect 2 to 2.5 billion kind of the revenue in this year?

Pramod Kumar Duggal

See, potentially we can, opportunities are available, but we are very mindful of our margin protection also because commodity impact in Home Aircon is extraordinarily high and, in this segment, customer is very conservative in terms of compensating such fluctuation. So, I am little bit conservative while giving you the figure, but it may be better, it may go better provided we get a proper compensation and not to sacrifice on our margins.

Abhishek Jain

Yeah, as you mentioned earlier that our backward integration would be the only solution to improve margin in the home AC segment. So, how is that progress there?

Pramod Kumar Duggal

So, we are in discussion with few technology providers for the backward integration. The discussions are still on. We have not yet signed off anything, but yes, progress is positive.

Abhishek Jain

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

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Our next question from Ashutosh Tiwari from Equirus. Please go ahead, sir.

Ashutosh Tiwari

Yeah, Hi. Firstly, I got us earlier, this MSIL-Toyota alliance project, what parts are you supplying over there?

Pramod Kumar Duggal

So, for that Maruti-Toyota Joint Alliance project, we will be supplying HVAC, compressor, not condenser, radiator, hose and pipe, so other than condenser, all parts are being supplied by Subros.

Ashutosh Tiwari

Okay. And we were also supposed to supply this HVAC panel, right? That was different. Sorry. This is one project, and we also mentioned three projects won in the PPT, what are those basically? Can you highlight?

Pramod Kumar Duggal

Three projects? Can you repeat?

Ashutosh Tiwari

Yeah. In the PPT, it is mentioned that in Q4, we have won three projects, three SOPs. SOPs of three new projects in Q4.

Pramod Kumar Duggal

That is SOP. So, that means, the new Baleno is SOP done, that was done on January 22. There is YHP that is Ertiga, a minor change also is done during this period and also one project of Mahindra is also done during this period.

Ashutosh Tiwari

So, were we not supplying any parts earlier? There is increase in the value content earlier or similar as earlier.

Pramod Kumar Duggal

In Baleno, there is no change in the overall content. Yes, no there is a change, because condenser is added, so almost 1200 to 1400 rupees per kit will be the delta incremental revenue coming from that SOP. Ertiga, there is no change in scope. Mahindra, yes there would be a change in scope of around 12,000 rupees.

Ashutosh Tiwari

And is this -- which model are you supplying to?

Pramod Kumar Duggal

What?

Ashutosh Tiwari

Which model of Mahindra are you supplying to, this 12,000-rupee content?

Pramod Kumar Duggal

That is Thar upgrade.

Ashutosh Tiwari

Thar?

Pramod Kumar Duggal

Yeah.

Ashutosh Tiwari

And we were not supplying to Thar earlier, in the earlier model?

Pramod Kumar Duggal

There is upgrade, I am saying there is a Thar upgrade. Earlier, it was also there, but now there is a model change.

Ashutosh Tiwari

But there is 12,000 rupees increase in content or is the same as earlier, content I'm saying.

Pramod Kumar Duggal

Content would be almost same, but there would be delta volume coming.

Ashutosh Tiwari

Okay. And can we provide the sales segment wise, like how much we have done for passenger vehicle ACs, EV versus **[Inaudible 00:21:50]** and all.

Pramod Kumar Duggal

So, I can give you broad numbers of how much we have done in cars, total Rs 680 crores, Rs 586 crores are sales for car in Quarter Four and roughly Rs 94 crores is for non-car, out of that Rs 60 crores is coming from home Aircon and the rest Rs 34 crores is from truck, bus and railway, etc.

Ashutosh Tiwari

Actually, I wanted it for the full year, how much we have done for radiator sales in car ACs, full year?

Pramod Kumar Duggal

You want for full year? So, full year out of Rs 2235 crores that is the revenue coming from operation, cars would be roughly 1600, around 1700 Crore from Aircon product and 300 Crore from radiator.

Ashutosh Tiwari

300, okay. And buses?

Pramod Kumar Duggal

And buses would be roughly 25 crores and truck would be 60 crores. Home Aircon 127 crores.

Ashutosh Tiwari

And we also mentioned that you got first rail coach AC business awarded, so this would be what size?

Pramod Kumar Duggal

So, that is roughly 12 crore rupees is the first order we got as a first entrant to this, and that will be supplied in this current financial year that is the final manufacturing and would be supplying from maybe August onwards, August to November is the delivery time.

Ashutosh Tiwari

Okay. So, obviously we got new orders and we will be strong in your car ACs, buses, and CV as well, but railway, how would you see the business like over in the next 2 to 3 years now that we got the first order.

Pramod Kumar Duggal

We are focusing very high on that because railway definitely is one, which is moving for EV in their first preference. So, our products are already lined up now. We started getting business for

EV railway also. And after this coach AC, the product is finally approved and supplied as a first lot, definitely we see a huge potential here. So, we are hopeful that between maybe 60 to 90 crores is the potential which we can realize in three years' time from the railway segment.

Ashutosh Tiwari

Okay. And what is our market share you mentioned in CVs and buses? I missed that number.

Pramod Kumar Duggal

CV, I think it is 43% and buses it is 27%.

Ashutosh Tiwari

Market share, okay. And we talked about products for EVs, cars and buses as well. So, where we are in that process right now and by what time our products should be in the market?

Pramod Kumar Duggal

In passenger-vehicle segments, we are at the final stage of product evaluation and in fact in Mahindra, we have already posted our product almost at a final negotiation stage. Now, since Maruti has also announced their plan for EV launch maybe in '24-25, so that is also lined up now and product evaluations are started happening now. Bus Aircon, EV, we already supplied our kits for final fitment trials and field trials. So, they are also at a final stage. Railway, as I mentioned, we already supplied the EV kits now. So, things are at a reasonably advanced level.

Ashutosh Tiwari

Ok. And this bus one is like, it is from companies like TATA motors , Ashok Leyland or some other supplier or some other player?

Pramod Kumar Duggal

Body builders also including JBM and so.

Ashutosh Tiwari

And any color on how this, for this passenger vehicle car, how is the content of the AC product versus the normal IC engine car, now that we are already in the advanced stages and negotiating.

Pramod Kumar Duggal

So, in IC engine, AC, if it is X, so EV sizes would be roughly 2.5x.

Ashutosh Tiwari

2.5x. You said that margin side obviously, you said its second, third derivative, the commodities we're not got pass through, but are we getting timely pass through in say the main plastics and all, which probably are covered with OEM or there also the delay is happening?

Pramod Kumar Duggal

No. Plastic and aluminum, we have no challenge because it is almost back-to-back, but there is a time lag. So, time lag can be one quarter or six months based on different customer contracts. The major discussions, which we are happening in field are some abs or some nylon material, which is different non-reclose commodity this is what we are negotiating.

Ashutosh Tiwari

And lastly in the CapEx how should we look at FY23.

Pramod Kumar Duggal

So, CapEx, last year, we have done roughly CapEx of 90 crores, and we have restricted that whatever is internal approval, we should be able to do CapEx within that. So, no additional borrowing was taken to manage our CapEx and the same trend will follow in the next year also and we'll be doing CapExs from the internal approvals only. Roughly between, since there are two to three new projects are lined up now, including our Chennai plant preparation for Toyota supply. So, we are keeping our CapEx around 100 crores.

Ashutosh Tiwari

And what kind of numbers you can look at from that project, project basically on a monthly basis?

Pramod Kumar Duggal

For which one?

Ashutosh Tiwari

Toyota-Maruti.

Pramod Kumar Duggal

Toyota-Maruti would be maybe between 15 to 20 Crore would be per month revenue coming in when the peak volume will start.

Ashutosh Tiwari

In terms of volume, how that would be?

Pramod Kumar Duggal

Volume would be between 10,000 to 15,000 per month.

Ashutosh Tiwari

Okay, thank you.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. So, the next question is from Sanjay Awatramani - Envision Capital. Please go ahead, sir.

Sanjay Awatramani

Fortunately, am I audible?

Pramod Kumar Duggal

Yes, please.

Moderator

Yes.

Sanjay Awatramani

Yes. So, mostly I've got the answers, but I just wanted to know that what are we moving ahead with this rail AC business or railway business, which we have gone for 12 crores orders? What is this exactly we are working on this?

Pramod Kumar Duggal

So, we are working on coach aircons. So far, our presence was on a driver cabin aircons, so we were present with CLWIC. And now, we started moving for coach aircon, which is quite large potential, so that is our development activity.

Sanjay Awatramani

Okay. So, let's say, once you bid for this rail orders, what is the margin component in the rail orders? I mean, if you can disclose it, I mean, if you're able to tell us something on that the margin thing?

Pramod Kumar Duggal

I will not be very specific in numbers, but I'll say that coach aircon definitely is because the revenue per unit price is quite high. So, they are comparable, and they are better than other few segments.

Sanjay Awatramani

In addition to that, the Chennai plant, which you mentioned. When will this be ready? I don't know if you mentioned this in your opening remarks, but just wanted to confirm that by when this will be starting.

Pramod Kumar Duggal

Chennai plant is already existing for last five years. So, they are supplying for all CV segments and bus segments and railway segments for last five or six years rather. Now, Chennai plant has been prepared for Toyota-Maruti Alliance project, so, this is only an incremental thing which we are preparing there, a new line is setup that will be operational by August or September as per the SOP date of this project.

Sanjay Awatramani

Okay, this is very clear, sir. And any revenue and margin guidance for FY23, if you're able to tell us and the current order book in-line with, I mean, if you can mention anything on that.

Pramod Kumar Duggal

So, since we have done roughly 2235 crore revenue during this year, so I'll only mention there are definitely many uncertainties attached to this, the risk factors still are not eliminated, but we are sure that we will do double-digit growth.

Sanjay Awatramani

For revenues?

Pramod Kumar Duggal

That is for revenue. So, revenue we will be doing double-digit growth from the current base of FY22. And definitely margins will also proportionately increase, because incremental revenue will not come with a proportionate fixed cost. So, definitely there will be improvement in margins.

Sanjay Awatramani

And the order book visibility?

Pramod Kumar Duggal

Order book for our kind of business is not really important, because once we are present in the model, we are there for 5, 6, or 7 years, whatever is the product lifetime. So, for that numbers, that much of double-digit growth we already have secured orders.

Sanjay Awatramani

Okay, this is very clear, sir. And last one thing from my end is that I mean, some earlier participants spoke to you, and you said that we'd be very aggressive in pushing localization within the next three years and what is this point exactly, can you please elaborate on this?

Pramod Kumar Duggal

So, localization information we have been sharing for last three years that when we were around 40% of our purchases or the revenue was coming from import. Right now, we have reached to almost level of 17% to 18%. So, 20% localization we have already achieved and now, because of the volatility, it is important that we push it further. So, the meaning 17% to 18% which is remaining now we have aggressive plan to bring it to less than 10% in next three years' time. Those projects are lined up and we are pushing localization now.

Sanjay Awatramani

Thank you so much, sir. This is all from my end. And good luck.

Pramod Kumar Duggal

Thank you, Sanjay. Thank you.

Moderator

Thank you. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. The question comes from Mr. Abishek Jain, Dolat Capital. Please go ahead,

Abishek Jain

Industry is targeting 15% to 18% volume growth in the CVs. Would you outperform industry growth, because of the new business you are getting from Toyota-Maruti Alliance and a strong outlook for the CVs and bus aircon?

Pramod Kumar Duggal

So, Abhishek, I just mentioned before also that the growth will be in double digits that is for sure, based on the base of 2235. Yes, of course, we are aligned to the industry growth, and it could be slightly better than that, but I will not be able to be very specific on this, which is definitely is a factor as of now.

Abishek Jain

What steps are you taking right now to protect your gross margin, which is going down the quarter, every quarter?

Pramod Kumar Duggal

So, I think I already replied to this question before also that for gross margin improvement, our focus is definitely on localization, material cost optimization and on operational efficiencies, whatever we can get as a benefit of productivity and operational efficiency improvements. All these plans definitely will support us in improving margin, both at gross margin level and also at EBIDTA level.

Abishek Jain

Sir, what about the pass on this commodity inflation as you mentioned that the realization growth was only 2% to 3% in the last year, so that was much lower than the commodity inflation, so can we expect that some cost will be passed on in the coming quarters to the audience.

Pramod Kumar Duggal

No. I think the recovery because last year our settlement for commodity increase, which was non-regular commodities started from second quarter onward. So, we got a partial settlement relevant for maybe one quarter or two quarter, but this year definitely there will be a full-year recovery. So, as long as the commodity prices are stable or there are certain incremental impacts, that compensation would be there. Right now, we don't see anything that we have to pass this benefit back to the OEM, because we don't see the commodity prices very sharply declined now in one-year time.

Abishek Jain

Ok. And, sir, what is the outlook for this EVs and truck sector growth. As you mentioned that your growth in this year, it was around 43%, vs. the industry growth of 28%, right?

Pramod Kumar Duggal

Yeah. So, commercial vehicle plus market is definitely now at a very sharp recovery path and we have seen two years as a sharp decline. So, now, the recovery is very high. Of course, one reason is that the base is low, but having said so, 43% growth in FY21-22, we see more than, maybe, better than 20% plus delta can be the growth here and the added advantage to us is that AC fitment ratio is also improving in trucks. So, that would be an added advantage to us for, product growth, as a growth driver, Now, coming to bus aircon, since schools started opening and also tourism started coming back to the regular, so whatever was held back in last 2 years will definitely support us as a key driver to the sales in this year. So, we expect these two segments definitely will be growing much faster and much better than EV segment.

Abishek Jain

Ok. And sir, how much is the current content per week in the bus segment, ICE and EVs both?

Pramod Kumar Duggal

So, normally, bus aircon is ranging between a small bus starting from 75,000 with a large bus up to 3.5 lakhs. So, that is IC engine-based aircon and if we go for EV, so it would be roughly 1.4 lakhs to maybe 5.5 or maybe 6 lakhs or so. In some cases, it may be 7.5 to 8 lakhs also.

Abishek Jain

There are N numbers of the orders are coming from the government for the EV side, so have you started to supply these yet?

Pramod Kumar Duggal

Not yet because they are right now all imported kits, because it was -- it required a validation because EV definitely is a new segment and all OEM want to evaluate products for Indian requirements, so localized products are still under evaluation.

Abishek Jain

Ok. Can we expect to start the production from next 2 to 3 quarter for this EV buses?

Pramod Kumar Duggal

I will say that maybe some portion in Quarter Four and rest of the portion will go in next financial year.

Abishek Jain

Ok, sir. During this quarter, tax rate -- during this year, the tax rate stood at 28%. What would be the effective tax rate for the FY23-24?

Pramod Kumar Duggal

Effective tax rate for FY23-24 will remain 30% to 32%. And from the financial year '24-25, it will be 22% plus surcharge, so effectively 25%.

Abishek Jain

Okay. And my last question is regarding the inventory situation. How is the inventory situation for the single core, like normal level or at a higher level?

Pramod Kumar Duggal

You're talking about inventory?

Abishek Jain

Yes, finished goods inventory.

Pramod Kumar Duggal

Finished goods inventory. So, normally, we count on a total inventory as far as our system because finished goods, we don't keep normally the big stock at our end. So, inventory levels are slightly high in this year as a closing on 31st March, because of -- as I mentioned before the lead time of containers and the shipping issues, which are happening, because of Ukraine war and because of China and other things. So, our inventory is almost 10% to 15% higher than before. But we assure that kind of recovery we have, and these inventories will be liquidated in this coming year.

Abishek Jain

Ok, sir. And the last quarter, how about the capacity utilization in passenger vehicle AC?

Pramod Kumar Duggal

Capacity utilization?

Abishek Jain

Yes. Capacity utilization in Quarter Four?

Pramod Kumar Duggal

Capacity utilization in quarter four is almost 85% to 90%, varying between different products. We are almost at the 90% utilization level.

Abishek Jain

As you mentioned that the next year, the CapEx would be around 100 crores, and we are looking at industry growth around the 15% to 18%, can we expect the further CapEx for this passenger vehicle AC segment?

Pramod Kumar Duggal

So, this issue, I have already explained a number of times that when we say CapEx directly related to the market growth, it is always an incremental CapEx, because there are certain base equipment, which are there for even 2.5 million requirements also. So, right now, whatever we are talking about is only a bottleneck operation where the investment would be incremental not the full-line investment. So, that's how, out of 100 crores, a substantial portion will go into that capacity bottleneck recoveries and in the next year also, whatever market growth would be there will be continuous spending on capacity buildup on incremental basis.

Abishek Jain

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

Pramod Kumar Duggal

Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, our next question from Vidrum Mehta from Aditya Birla Money. Please go ahead.

Vidrum Mehta

Yeah, thank you, sir. So, just you know, correct me or help me understand with respect to EV front you said that you know content in IC engine is if it is X then in, you know, EV it would be 2.5X. So, is there any major modification or higher the content which is required when we supply to EV?

Pramod Kumar Duggal

EV, the major change is the compressor, and compressor price between IC engine compressor versus electric compressor is almost 10 to 15X. So, since compressor contributes a substantial part of kits, that's why overall on the kits size, it would be to 2.5X.

Vidrum Mehta

Fair enough. And with respect to demand front, you guided that, you know, for FY23, it would be double digit, but if you could help us, you know, some more if you could give more color on, you know, your major client Maruti, as to what are its plan in terms of production schedule, or what are, you know, in terms of for FY23, will the monthly run rate, which they have guided, probably say for first half or first quarter.

Pramod Kumar Duggal

So, I don't want to be controversial by announcing any OEM plan, but the broad mathematics says that in the month of May '21, when there was a lockdown, and now, we don't expect that such lockdown will happen, so one-month production recovery will give you roughly 10% to 11% volume growth in any case as a base. So that much would be there and 4% to 5% would be the natural growth overall as the industry, that's how industry is talking between 15% to 18% growth.

So, this is a broad basis on which we are saying that our growth also will be on a double-digit basis. And on top of that, the other key sales driver for us is that this Maruti-Toyota Alliance, which will be an incremental sale for us, because that's a new model, not part of our existing product profile, so that will be addition which is maybe starting at the maybe last month of this financial year or maybe middle of the financial year, maybe September, so that six months' sales would be the delta for us. So, that is making us confident that we can do double-digit growth.

Vidrum Mehta

Right. And sir, any update on the Denso new product or technology which was likely to come in?

Pramod Kumar Duggal

So, Denso new technologies, we already started now lining up and as I mentioned before, compressor technology transfer has already completed, and we started this new **[Inaudible 00:44:25]** technology for India market. This commercial production has already started in January '22. So, this is a third project which we completed successfully after the equity infusion. So, first project was a new REC condenser, that is regional efficient condenser, 11.5 mm thickness which

is the slimmest condenser in the world that is the newest technology we launched in India and after that, we had this new efficient radiator also is the slimmest radiator in the world that is a second technology transfer, which we had post equity and also, we got from entrustment to our TA-based production. Third project, which we have executed now from January is a new wind rotary compressor that is SV08, that is also a new series of wind rotary compressor first time launched in India.

That is the third transaction and now, we will be upgrading SV08 to SV10, so that we can cover even B plus and C segments vehicle also on that. And the fourth project with the new technology transfer as a part of our collaboration activity would be part of this Toyota-Maruti Alliance project, which will be starting maybe in August or September that is also there, and for hybrid vehicle also, the technology transfers have already happened and when this new hybrid vehicle would be launched by Maruti under maybe Toyota-Maruti Alliance project that will also be commercialized maybe in the middle of this year, so a lot of progress now is happening which is almost confirmed.

Vidrum Mehta

Right. Thank you, sir.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad.

Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. We have a follow up question from Mr. Ashutosh Tiwari from Equirus, please go ahead, sir.

Ashutosh Tiwari

What is our share of business in Tata and Mahindra now and also, we can highlight Maruti?

Pramod Kumar Duggal

In Mahindra, we are at around 28% of share of business with them. Tata, passenger vehicle, we have a very low share of business, but in CV, we have around 58% and in Maruti, we have around 76%

Ashutosh Tiwari

So, with Mahindra, have we improved over last one year or in the --

Pramod Kumar Duggal

Yes, earlier it was 16% of their share of business, now we have improved to 27% and maybe based on our business engagement right now with them, by end of or maybe middle of '23-24, we'd be touching around 40%

Ashutosh Tiwari

Okay. And the 16% number was there in which year, like last year or '21?

Pramod Kumar Duggal

Three years before.

Ashutosh Tiwari

Okay. And Tata, like can we make some progress over there as well?

Pramod Kumar Duggal

Still under progress in CV segments. In CV, we have made a substantial progress and we are there in almost all the platform of CV with Tata, but on PV side, still we are in discussion for the new technology launches including EV for future.

Ashutosh Tiwari

And who will be supplier over there, if we can provide the seller?

Pramod Kumar Duggal

Who will be or who is?

Ashutosh Tiwari

Who is the supplier in Tata Motors EV units?

Pramod Kumar Duggal

Right now, I think on IC, they are having Air International that is their subsidiary company.

Ashutosh Tiwari

Okay. So, in this truck AC business, like you mentioned that the share of AC is increasing, so what is it the penetration right now or what was it last year or two years back?

Pramod Kumar Duggal

So, as you know that right now, the notification of the regulation mandate only the ventilators as a blower in the trucks, but optionally OEM started launching this AC trucks and they have seen quite an encouraged feedback from the market. So, earlier it was only 6% AC fitment ratio, which has already increased to around 15% to 17% now, with the different OEMs. So, it is being an upside trend, even though the regulation may delay, but still, I think if end consumer finds it beneficial to have AC truck, then definitely this penetration will improve in future.

Ashutosh Tiwari

Ok. And lastly when we say these SOPs, these we measure in terms of overall value or only HVAC we look at?

Pramod Kumar Duggal

We count it by the overall thermal buying product of the customer, which is aggregate of all the products.

Ashutosh Tiwari

And you also mentioned that new hybrid project of Toyota Maruti, so this is actually which segment?

Pramod Kumar Duggal

That would be in the B plus segment.

Ashutosh Tiwari

B plus.

Pramod Kumar Duggal

Yes.

Ashutosh Tiwari

And in this your radiator business, mainly supplying to Maruti as of now, right? [z b 00:50:30] is for Maruti only or Toyota as well in that?

Pramod Kumar Duggal

No. It would be to Maruti, to FMG and also, now, it would be starting to Toyota. So, this radiator will go to three and the next year, we would be supplying it to the Mahindra tractor also.

Ashutosh Tiwari

Mahindra?

Pramod Kumar Duggal

Mahindra tractor.

Ashutosh Tiwari

Ok. And the content will be higher in tractors, right?

Pramod Kumar Duggal

No, it is not grossly different, because radiator is a radiator. So, it is not substantially different. There may be 10% to 15% plus or minus, but it is not substantially different.

Ashutosh Tiwari

Okay. So, this can also grow ahead of industry basically, this segment, radiators?

Pramod Kumar Duggal

Of course, and this tractor market since Mahindra is quite pioneer in the tractor market, and this new Mitsubishi-Mahindra Alliance project, which is coming now, that will have our products going into and this would be exported to US and Japan also. With that route, we will get into global entry of our products.

Ashutosh Tiwari

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Okay. So, as of now this is only limited to Mitsubishi M&M joint project

Pramod Kumar Duggal

Say again, please.

Ashutosh Tiwari

So, as of now that supply to Mahindra tractors is only to this Mitsubishi M&M product.

Pramod Kumar Duggal

Yes. As of now, yes.

Ashutosh Tiwari

Ok, sir. Thanks a lot.

Moderator

Thank you, sir. So, our next question from Mr. Shyam Sundar from Sundaram Mutual Fund. Please go ahead, sir.

Shyam Sundar

You mentioned a share of business with Maruti at 76%. Is it fair to assume in the new model launches of Maruti whether it be Maruti-Toyota or Maruti's own completely new model project, our share of business will be maintained at the same 76% level, 75 to 76 in that range?

Pramod Kumar Duggal

I will be more optimistic, it is going to improve, sustains, it is a plus.

Shyam Sundar

Okay, understood. That's very helpful. And one other question on the RM basket, if suppose, passenger vehicle aircon is say 100 rupees, I'm just assuming 100 rupees as an indexed price

per se, how much of that actually can be passed through and how much do we have to absorb purchaser?

Pramod Kumar Duggal

For RM indexation, you are saying?

Shyam Sundar

Yes. I suppose, it is at 100 rupees for a passenger vehicle aircon, how much is it can be passed through and how much do we have to absorb per se?

Pramod Kumar Duggal

I will just give you a ballpark figure, I may not be very precise in that, but it would be between 70 to 30 ratio.

Shyam Sundar

Okay. 70 can be passed through and 30 will have to be absorbed if at all there is a fluctuation in that. Got it. And, sir, any currency fluctuations that we had in this quarter?

Pramod Kumar Duggal

Currency fluctuation, yes there is. But based on our hedging policy we have tried to cover that or protect that.

Shyam Sundar

Okay. Understood sir. Thank you very much. I'll call back again. Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. The next question from Mr. Aditya Makharia from HDFC. Please go ahead, sir.

Aditya Makharia

Yes, it is one question on the currency fluctuation, the Yen has actually weakened very sharply versus the rupee and even the dollar, so isn't that beneficial for us? Because in both, you said 18%, right?

Pramod Kumar Duggal

Since it is a back-to-back pass on with the customer and we hedge as per our customer's investment also, so no major benefit of this currency movement, either side.

Aditya Makharia

But let's say six months later, it will benefit us?

Pramod Kumar Duggal

Fabrication side.

Aditya Makharia

Okay, but going ahead -- okay. Right now, your contracts are obviously your hedge, but six months later, will you have to pass on the benefit to the customer, or can you retain something?

Pramod Kumar Duggal

Which benefit?

Aditya Makharia

Sorry.

Pramod Kumar Duggal

Which benefits pass on?

Aditya Makharia

The currency weakening the yen, so imports are going to be cheaper for us, right? So, now, you're hedged in this quarter I understand, but as you move forward into next year, you will get fresh

orders and you will be importing material, so at that time with the yen falling 20% to 25% will that benefit us in anywhere or it will just be a pass through?

Pramod Kumar Duggal

It will be a pass through, because it is a quarterly pricing with the customer on currency. If it goes up, customer will increase the price and if it will go down customer will decrease the price for the foreign currency content.

Aditya Makharia

Okay. Got it. Thank you.

Moderator

Thank you, sir. Ladies and gentlemen, if you have any questions, please press * and 1 on your telephone keypad. Sir, there are no further questions. I would now like to hand over the floor to the management for closing comments.

Pramod Kumar Duggal

Thank you very much. I think we have addressed most of the queries which we have, only one positive thing that I can mention here is that things started normalizing now other than a few disruption on the supply chain, but based on the experience of last three to four months, where OEMs started getting some firm supplies of semiconductors, the route for this year, FY23, is looking promising, and we, right now, based on the current business assumptions or the situation which we have, we are hopeful that FY23 would be much better on the top line side. And of course, that challenge will remain on the bottom line, but based on our existing plans, we will recover some partial things in FY23, but future is definitely very, very promising. Good luck. Thank you very much.

Moderator

Thank you, sir. Ladies and gentlemen on behalf of Aditya Birla Money, this concludes the conference call for today. Thank you for your participation and for using Doorsabha's Conference Call Service. You may disconnect your lines now. Thank you and have a good day, everyone.

Note:

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