"Subros Limited

Q1 FY '25 Earnings Conference Call"

August 13, 2024

**MANAGEMENT:** **MR. PARMOD KUMAR DUGGAL – CHIEF EXECUTIVE OFFICER – SUBROS LIMITED**
**MR. HEMANT KUMAR AGARWAL – CHIEF FINANCIAL OFFICER AND SENIOR VICE PRESIDENT-FINANCE – SUBROS LIMITED**

**MODERATOR:** **MR. ANNAMALAI JAYARAJ – BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Subros Limited Q1 FY '25 Conference Call hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all the participants' line 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 star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Thank you and over to you, sir.

**Annamalai Jayaraj** Thank you. Welcome to Subros Limited 1Q FY '25 post results conference call. From Subros Limited management, we have with us today Mr. Parmod Kumar Duggal, Chief Executive Officer; and Mr. Hemant Kumar Agarwal, Chief Financial Officer and Vice President Finance. I'll now hand over the call to Mr. Parmod Kumar Duggal for the opening remarks to be followed by question-and-answer session. Over to you, sir.

**Parmod Duggal:** Thank you, Jayaraj. Good morning, ladies and gentlemen and warm welcome to all of you on Subros investor call for quarter one FY '25. Let me give some background about the industry first. The auto industry is navigating a complex environment with a mix of challenge and opportunities. The companies are adopting diversified product portfolio, improving operational efficiencies, and leveraging new technologies.

There has been a noticeable shift in the consumer preference towards SUV and premium HVAC. Maruti Suzuki, traditionally strong in the small car segment, has been expanding into SUV line-up to capture a larger share of growing markets and this is where Subros also feel a great opportunity for us for future growth.

Indian auto industry continue to experience a gradual shift towards electric and strong hybrid also. Our traditional IC Engine will continue to dominate the market and hybrid model will gradually be popularly bridging this gap between ICE and SUV. During the quarter, passenger vehicle industry has observed a growth of 5.8%.

As a result, India upheld or sustained its position as the third-largest EV market globally. During the quarter, passenger vehicle industry has crossed production of 1.2 million, car production. Subros has grown in passenger vehicle segment by 16% due to various model mix and improvement in share of business with our OEMs.

Commercial vehicle segment also showed a negative growth during the quarter, that is 2.4% negative. N2, N3 categories have shown growth of 17%, whereas N3 category has shown a de-growth of 4%. Overall Subros growth in the truck segment N2, N3 category is 8%.

Commercial vehicle bus is also improving because of tourism sector and public transport system. AC fitment ratio is having a variable impact on the overall industry for us. Industry has shown a growth of 6.7%. However, Subros being dominant in the small bus segment has shown a de-growth of 5% just because of the AC fitment ratio variability.

Regarding Indian Railways being the lifeline of the nation, there have been various actions taken by the government for improvement of railway infrastructure and also to provide the air-con driver cabin, as well as the coach air-con. We have been consistently following up for this business acquisition and last year, we got all the technical approval from RDSO for both cabin, as well as for coach and we started executing the orders. There is a start-up production last quarter and based on that we started realizing the revenue on this segment also. The results of quarter one FY '25 have been shared with the stock exchange and also posted on our website. So let me elaborate the summary of results one-by-one.

Subros has performed very well in quarter one FY '25. Growth of 17% with a significant improvement in the margin is a result of aggressive push towards operational efficiencies and cost on efforts. The Company achieved a sales amount of INR807 crores. In this quarter car and non-car segment has contributed 94% and 6% respectively. Our share of business in passenger vehicle air-con market is 43%, in truck market it is 53% and in bus segment it is 16%.

Now I will elaborate on the operational performance. As I mentioned before, there is a lot of challenge and supply chain disruptions globally and also there are cost escalations happening now. For last two years, we have been working very aggressively on the metal cost reduction program and also to offset the commodity fluctuation, logistic cost escalation with the customer settlement. The Company has realized an EBITDA of INR80.42 crores in quarter one, which is 9.96% of the net sale as against the EBITDA of INR48.80 crores which was 7.06% of the net sale in corresponding quarter of the last year.

There is improvement of EBITDA by 65% as compared to the last year same quarter. Profit before tax in the quarter is INR47.16 crores, which is 5.84% of the net sales. Profit before tax has improved by 138% and PAT in quarter one is INR34.91 crores which is 4.33% of the net sales and this has improved by 159%.

Few business updates as I mentioned before, in previous few quarters the performance has started improving and we are improving on EBITDA, PBT, and PAT level and we continue to pursue it the same and keep the double-digit growth in the forthcoming quarters as well, as the business conditions are positive so far unless there is a big disruption coming in.

In addition to that, our efforts on cost down realization both in fixed and variable costs are also contributing well to the bottom line. Company is debt free now. Long term borrowings are nil. So we are able to now support our cash generation to our capital investment.

Subros is poised for a promising future and strong commitment to innovation. So based on that, our new business acquisition and product development in various segments is happening. We already secured almost 20% of our revenue businesses from alternative fuel, CNG, hybrid or electric and we'll be able to continue this further.

We also reported in past that Ministry of Road Transport and Highways has also initiated notification for mandatory truck air-con effecting from October 25. So business acquisition towards that new notification realization is going on with the large OEM and we'll update you once we have final purchase orders received from them.

Also, our product development in BEV segment, Mono Electric with Mahindra & Mahindra and Maruti Suzuki are at final stage of evaluation and SOP are planned as per the milestone. So we are progressing well also on these two big initiatives.

We are also now trying to build up certain capacities to meet the customer demand in next five to seven years. Based on that, we are happy to announce that we got in principle approval from our Board yesterday to set up a Greenfield project in Sonipat, Haryana which is closer to the Kharkoda plant of Maruti Suzuki.

This is a strategic expansion aligned to our commitment to growth and innovation and further strengthening our presence in the automotive industry. This is in principle approval to start land finalization activities and detailed project report and feasibility is in progress which we will be updating you in the subsequent meeting.

So, before I conclude, let me summarize the key point of the financial results. So, revenue from the operation is INR810 crores in quarter one with a growth of 17%, EBITDA of INR80.42 crores with a growth of 65%, PBT of INR47.16 crores with a growth of 138%, PAT of INR34.91 crores with a growth of 159%.

So thank you very much and now we are ready to take questions.

**Moderator:** Thank you very much. The first question will be from the line of Ashutosh Tiwari from Equirus. Please go ahead.

**Ashutosh Tiwari:** Yes. Hi. Congrats on very good numbers. Firstly, can you provide the breakup of sales between your passenger car ACs and aerators, truck, buses, etc.?

**Parmod Duggal:** So out of this INR807 crores, passenger vehicle segment has contributed has contributed INR840 crores. Engine cooling module is roughly INR120 crores. Truck segment has contributed INR25 crores. Buses around INR8 crores to INR10 crores. And home air-con is around INR3 crores.

**Ashutosh Tiwari:** Sorry. Home air-con is?

**Parmod Duggal:** INR3 crores.

**Ashutosh Tiwari:** No. But you said EV is how much?

**Parmod Duggal:** INR640.

**Ashutosh Tiwari:** INR640. Okay. And last year how much it was -- PV was how much last year?

**Parmod Duggal:** Last year?

**Ashutosh Tiwari:** Third quarter.

**Parmod Duggal:** Last year quarter CV was around INR19 crores, which has improved to around INR26 crores now.

**Ashutosh Tiwari:** No, I asked this passenger vehicles.

**Parmod Duggal:** Your voice is not clear. Can you be louder?

**Ashutosh Tiwari:** I'm asking about passenger vehicle last year.

**Parmod Duggal:** Last year, passenger vehicle is INR540 crores.

**Ashutosh Tiwari:** INR540 crores?

**Parmod Duggal:** Yes.

**Ashutosh Tiwari:** So we have grown pretty well compared to industry. Is it driven by the new orders and also Mahindra and all?

**Parmod Duggal:** So it has two contributions. One is that, within the industry the growth in SUV is maximum and our share of business in SUV is substantially large. And also we started the business with Mahindra & Mahindra that also SOP started and we are realizing the revenue on that.

**Ashutosh Tiwari:** Okay. And what if like from October '25 ACs will become compulsory in trucks. So what is the current share of ACs in trucks?

**Parmod Duggal:** So right now it is variable. Every month, there is slightly different figures, but roughly 15% to 17% is the current penetration of optional ACs. Blower, of course, is 100% but optional AC is between 15% to 17%.

**Ashutosh Tiwari:** Okay. So this INR25 crores number that we have done in trucks right now, like can increase to how much, like say in FY '26 when it completely becomes effective on annual or quarterly basis considering maybe I have a 50% share in the truck segment?

**Parmod Duggal:** So because this INR25 crores quarter is including the blower, as well as AC. So once AC will get replaced to blower definitely there will be some delta realization per vehicle. Annualized basis, last year we did in truck around INR85 crores. If all the business engagement with all customers are as per our plan, we should be able to cross INR150 crores plus.

**Ashutosh Tiwari:** Okay. And you mentioned that in Maruti and Mahindra, you're working on this AC development for the EVs that they have. As of now, we don't supply for Mahindra.

**Parmod Duggal:** No. So this SOP will start next month now and Maruti SOP will start maybe the last quarter of the financial year.

**Ashutosh Tiwari:** Okay. And I think we have discussed in the past about a content increase in EVs. Now that you're probably just going to launch and supply, what exactly is the content increase in ACs for EVs versus ICE vehicles?

**Parmod Duggal:** So minus the electric compression, we said before also it is roughly as if it is 100 basis then it would be 180 without compressor. If compressor alone is roughly three to four times.

**Ashutosh Tiwari:** Three to four times of the current cost of compressor basically?

**Parmod Duggal:** Correct, correct.

**Ashutosh Tiwari:** And we supply both, right, in these cases?

**Parmod Duggal:** No. Right now we are not supplying the electric compressor. This is still under plans for either we localize or we pass through from Japan. That discussion is still ongoing.

**Ashutosh Tiwari:** But this 1.8x we definitely will get.

**Parmod Duggal:** Yes, that would be there in the existing one.

**Ashutosh Tiwari:** Okay. And even for the Maruti product like say when you look, like when you start supplying, compressor is as of now not part of your orders?

**Parmod Duggal:** Yes. They will be importing as of now.

**Ashutosh Tiwari:** Okay. That's all from my side. Thank you.

**Parmod Duggal:** Thank you.

**Moderator:** Thank you. The next question will be from the line of Hitesh Goel from Riddhish Advisors. Please go ahead.

**Hitesh Goel:** Yes. Thank you for taking my question. Sir, I just wanted to ask two questions. First is on this AC regulations in trucks like on October '25, it will become mandatory. So what is the content addition per truck? Is it around INR10,000, INR20,000? How should we look at it?

**Parmod Duggal:** So right now there is a blower in all the trucks. So between blower to AC content, there may be a delta of INR9,000 to INR11,000. It depends upon the different size and the configuration. So you can take it roughly between INR8,000 to INR11,000 would be the delta per truck once we move completely to air-con.

**Hitesh Goel:** That's the additional business that people get. If you get 50% of that business, so basically what we are saying, there are 300,000 plus which are sold every year, right? So we are talking about additional rent of INR150 crores if you get 50% market share in this, is that right, approximately? Industry size goes up by INR300 crores.

**Parmod Duggal:** That's the assumption as of now. We are yet to conclude our business engagement with OEMs. So once we conclude that, what share of business finally we get relies on that still too. Please wait for that.

**Hitesh Goel:** Okay. Okay. And on the second question on EV and hybrid. So in hybrid and EV vehicles, you have given the number for EVs that the content goes up by 1.8 times. In hybrid versus petrol, does the content also go up for ACs?

**Parmod Duggal:** No, there's other than again, I'm replying the compressor part. But in case of hybrid, the delta would not be substantial because the change point, in HVAC there is no change point, whether it's hybrid or ICE. So it may be 1.3 times to 135 times also.

**Hitesh Goel:** Okay. And in Tata Motors EV vehicles, are you present or not? You're only in Mahindra and

**Parmod Duggal:** We are not present in that.

**Hitesh Goel:** And Mahindra's next year EV vehicles, you're present in all vehicles or you've got some?

**Parmod Duggal:** We are not present in full system, but we'll be supplying some parts for Mahindra, all the four programs which are coming.

**Hitesh Goel:** Okay. Great, sir. Thank you. All the best.

**Moderator:** Thank you very much. The next question will be from the line of Kush Shah from B&K Securities. Please go ahead.

**Kush Shah:** Yes, sir. Thank you for the opportunity and congratulations on a good set of numbers. Sir, I just wanted to get some light on this Yen appreciation, which we have seen for Japan. So any impact on the margins going forward, or would that be a pass-through?

**Parmod Duggal:** Can you repeat your question? I could not catch you. What was the question?

**Hemant Agarwal:** Yen appreciation.

**Parmod Duggal:** Yen appreciation.

**Kush Shah:** Yes. Yen appreciation and the impact.

**Parmod Duggal:** So, as you know that for all products-related contracts, we are back to back, secure with the customer, but with a quarter lag. So whatever impact will be there in one quarter, which will be either upside, downside, that will net normalize in the subsequent quarter. So on an annualized basis, we don't see a major impact coming in either on top line or bottom line.

**Kush Shah:** Understood, sir. And I believe in the presentation you mentioned you all got EV orders. So on the components part, is there any localization of those components or is that imported?

**Parmod Duggal:** So EV first program, since the number or the base is very small, so we are trying to source it wherever possible. But a major focus is on the localization. But since the numbers are very, very small, so we don't want to invest right now for large capacities for EV localization. But gradually, once we move from one program to another program, the localization level will increase.

Contrary to this, once we started Mahindra & Mahindra, the program works for four platforms. So the localization level gradually is increasing now. After first program in next month, then subsequent would be after six to eight months. So our gradual localization level will increase.

**Kush Shah:** All right, sir. Thank you. I'll fall back in the queue.

**Moderator:** Thank you very much. The next question is from the line of Ashutosh Tiwari from Equirus.

**Ashutosh Tiwari:** On the railway side, we had got the approval. How should one look at the revenue? Remember, I think last year was around INR5 crores to railways.

**Parmod Duggal:** So last year was INR5 crores and this year we have already done almost INR2 crores now. We have one order which is in pipeline which we are supposed to close by end of this year. So revenue will be between INR10 crores to INR12 crores this year. And subsequent orders are in final stage of negotiation or business award. So we'll update subsequently.

**Ashutosh Tiwari:** And these ACs are basically like the new orders are basically for passenger coaches, right?

**Parmod Duggal:** So yes, this is for Indian Railway coaches and also for driver cabin. So both business discussions are on.

**Ashutosh Tiwari:** But driver cabin, I believe we supply earlier also, right? I mean.

**Parmod Duggal:** Yes, Yes. It is already there. So but there is some change in technology which railway is expecting. So we are trying to align that.

**Ashutosh Tiwari:** And versus this INR10 crores, INR12 crores revenue that we plan to do and expect to do this year, what is the opportunity size in this segment? What is the railway sourcing per year?

**Parmod Duggal:** So I will not be able to spell out what exactly is the total sourcing of railway in thermal. But as a business segment if we are on full swing and all the projected projects are realized, we would be able to touch between INR70 crores to INR90 crores.

**Ashutosh Tiwari:** This will happen over how many years?

**Parmod Duggal:** Maybe two years to three years.

**Ashutosh Tiwari:** Okay. And does this include supplies to Metro also or that's not as of now with us?

**Parmod Duggal:** No, this is excluding. This is only for Indian railways. Metro coaches, we are now at a product development stage. Once that is completed that would be substantially different.

**Ashutosh Tiwari:** Okay. And generally just to understand this space a bit better, I mean, in one train where may be there are four or five AC coaches what will be the size and content will it be? Any idea of that?

**Parmod Duggal:** One coach require two air-cons. So that's how it is called in set. And if one train has around 12 coaches, so it would be 24 air-con. So 12 set would be there.

**Ashutosh Tiwari:** And what will be the cost of that?

**Parmod Duggal:** So roughly it ranges between INR8 lakhs to INR10 lakhs per AC.

**Ashutosh Tiwari:** Per set or per air-con basically?

**Parmod Duggal:** Per set.

**Ashutosh Tiwari:** INR8 lakhs to INR10 lakhs for per coach basically.

**Parmod Duggal:** Yes.

**Ashutosh Tiwari:** Okay. And who are the other players in this segment on railway?

**Parmod Duggal:** So there are many. Sidwal is there, Farley is there. Siemens is there.

**Ashutosh Tiwari:** This is okay. And secondly, on the bus side, like I think we would like you mentioned you did INR12 crores, INR13 crores. INR18 crores, sorry, in this quarter which is similar versus last year. Do we supply for EVs as well?

**Parmod Duggal:** Yes. So EV both 9 meter, 12 meter product is already evaluated by us and it is now aligned to customer program. So that trials are going on. Once they are successful, we will be able to convert this into business.

**Ashutosh Tiwari:** And like compared to a non, let's say, a normal ICE bus, how does the content increase? I think there's substantial content increase when you go to EV buses. But what's the content in ICE and EV like for nine meter bus?

**Parmod Duggal:** No. It could not be substantial change point because in the ICE bus also compressor get energy from the electric only. So in the EV bus also, the status will remain same. So there would be hardly any differential other than battery cooling module which would be a delta but maybe 1.2 x or so.

**Ashutosh Tiwari:** And battery cooling module, we supply or develop, anything on that?

**Annamalai Jayaraj:** Pardon.

**Ashutosh Tiwari:** Like this battery cooling modules for buses, have you developed supply? Where we are in, on that product?

**Parmod Duggal:** So that also is part of the evolution because once few customers will buy them in a sector, so it will be a secret with battery cooling. Or there may be a few cases where battery cooling would be add-on product.

**Ashutosh Tiwari:** Okay. And lastly on the margin part, how like say this margin is sustainable going ahead?

**Parmod Duggal:** So far based on the market condition we see next two to three quarters we will be able to sustain these margins, unless there is a big disruption or a geopolitical disruption which may impact the overall industry. But minus that, we don't see any challenge.

**Ashutosh Tiwari:** And the capex plan for this year and next?

**Parmod Duggal:** So this year I think between INR120 crores is the capex investment between new program and small capacity, as well as for replacement of assets. So we will try to maintain that.

**Ashutosh Tiwari:** And the new plant capex will mainly go next year?

**Parmod Duggal:** So that will go next year. But we have not yet made the final proposal of how much investment will be there. Please wait for one quarter for getting the final input on that.

**Ashutosh Tiwari:** Okay. Got it. Thank you.

**Parmod Duggal:** Thank you.

**Moderator:** Thank you very much. The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

**Mayur Parkeria:** Sir, actually my phone line due to network got disconnected. Apologies. So if there is any repeat or anything I missed out, another apologies. On the margin front, I just wanted to understand. Sir, while we have reached the 10% target we had set in this quarter itself and you just alluded that next two to three quarters, you believe it is sustainable.

But when we look at your presentation, just wanted to clarify in one of the slides you mentioned that it is the benefit is because of lower commodity prices. And in another one where we have mentioned that localization benefits have also started to play out. The first and former one, the commodity prices, the benefit may be a little, maybe not very sustainable post two, three two quarters. So how should we see this?

Which is a major driver here and how should we see about the sustainability of margins beyond two quarters, sir?

**Parmod Duggal:** So on margin side, the major contribution of improvement is localization benefit. Whatever cost-down effort we did last year or maybe two years before, they started realizing now. So it is a sustainable part of that because these localization benefits will continue for till the life of the program. That is one.

On the second part, commodity price impact also is softening now. And in the previous calls, we did mention that there are certain contracts where commodity price indexation is allowed with the customer. But there are certain excluding commodities where compensation is not indexed. So once these are softening, we are trying and we are now getting the gain of that.

So, of course, that is again subject to the market condition. But as of now in next two to three quarters, we see that such commodities are softening and will continue to be at this level.

**Mayur Parkeria:** So sir, should we believe that this is the base and our long-term two to three years target of 11% and 12% to start from here? Or you believe that there can be headwinds if the commodities or prices actually reverse, which way one should look at? Is this the base one should look at? And then going forward in the medium term, we should start realizing 11% to 12%?

**Hemant Agarwal:** As informed by Mr. Duggal that major impact on the reduction of the metal cost is the cost optimization initiative undertaken by the Company. The commodity movement or a fluctuation where it is back to back reimbursed by the consumer has no impact. Wherever we have not declared the commodity, it has a very small impact on our bottom line.

So going forward, there is no major or even if the commodity started moving up, it is not going to have a major impact on our bottom line, but definitely it will have. And that and the Company has the endeavour to compensate with their aggressive cost optimization plan. So we expect that going forward these margins are sustainable, even the better one.

**Mayur Parkeria:** Great. Great, sir. Okay, sir. And another thing on the capex, the new plan which you have announced, I understand that plans are still to firm up and the project report will get more details in the next quarter.

But directionally, will this involve EV, I mean, the plan for the EV localization?

**Parmod Duggal:** So new plant setup is to meet the customer requirement. Since Maruti has already announced 1 million capacity in Kharkoda, so we are trying to align the project to meet that requirement. So whatever share of business we get out of that plant location we will be trying to service that. So, there is no direct linkage to localization or non-localization. But, of course, we will be expanding these plant for meeting the additional delta requirement of customer. But, of course, once we set up this plant, it will be very highly efficient plant which will be built up to take care of next 10 to 15 years of future requirement.

**Mayur Parkeria:** Right, right. Sir, I missed some numbers which you gave for the quarter in terms of the breakup of the sales. If we look at the overall top line, top line growth has been muted. But if you look at the passenger vehicle, the growth, I guess the numbers were INR540 crores to INR617 crores. So growth was much better than the industry. Which were the other segments which did not do as well that the growth was a little moderate and how do we see going forward for the whole year?

**Parmod Duggal:** So I think you mistook the data for passenger vehicles. So it was INR540 crores to INR640 crores. So that's how the growth is around 18% in that segment.

**Mayur Parkeria:** Sir, INR640 crores or INR614 crores?

**Parmod Duggal:** INR640 crores.

**Mayur Parkeria:** Okay. Okay. Okay.

**Parmod Duggal:** And then ECM growth is roughly 13%. Bus segment has not grown because of the AC fitment ratio not favourable to us. So it all depends upon AC fitment ratio. There is no mandate of AC buses only. Truck business is favourable to us because the numbers have improved from the last corresponding quarter. Tractor in a small term, but started during the quarter. So, but the base is very small. So that is not very significant. So that's how overall we have realized around 17%.

**Mayur Parkeria:** Right. So we believe that despite the slowing passenger vehicle growth for FY '25, our growth can continue to be much better than the industry in the current light because of rising SUVs and Maruti sales on the SUV side which is there and M&M platform, right?

**Parmod Duggal:** Hopefully, yes. If this trend continues.

**Mayur Parkeria:** Okay, okay. Great sir. Thank you so much. Wish you all the best. Thank you, sir.

**Moderator:** Thank you. The next follow-up question is from the line of Hitesh Goel from Riddhish Advisors. Please go ahead.

**Hitesh Goel:** Thank you. Sir, just want to clarify on railway side, are we supplying to Vande Bharat also? And follow up question there also is, in railways there is generally L1, L2, right, in terms of suppliers, in terms of contracts. So that work in AC business also or there are many suppliers?

**Parmod Duggal:** So railway always decide business on L1, L2, L3. And wherever there are new entrants for that some development orders are being issued that is out of the total order. So that pattern will follow to the AC also. Vande Bharat, we are right now in ICF or MCF. Vande Bharat, I think in the next order we'll be able to service that.

**Hitesh Goel:** And then the number that you had given for the normal diesel trains, sorry, normal trains for Vande Bharat that INR1 crores per train number for AC content is higher or lower?

**Parmod Duggal:** INR1 crores?

**Hitesh Goel:** So basically you said INR8 lakhs per coach, right? So there are 12 coaches.

**Parmod Duggal:** 12 coach means, we are counting by coach. We don't know how many coaches will be there in a train or so. So we count by coach only. So the overall number of two to three year include that Vande Bharat…

**Hitesh Goel:** Okay. But Vande Bharat content would be higher, I mean, in AC or similar?

**Parmod Duggal:** The coach is same. The air-con quality will be same.

**Hitesh Goel:** Okay, okay. Thank you, sir. Thank you.

**Moderator:** Thank you very much. The next question will be from the line of Annamalai Jayaraj from Batlivala & Karani Securities India Private Limited. Please go ahead.

**Annamalai Jayaraj:** Yes. Thanks for the opportunity. I have only one question, sir. What is our current import content and what is our target for localization, sir?

**Parmod Duggal:** So our total import content as of now is 16% of the sales. This is our current level. Next two to three years' time, we want to bring it less than 10%. That's the long-term target we have fixed.

**Annamalai Jayaraj:** Out of the 16%, mostly it will be yen sir, or some other currency will also be there?

**Parmod Duggal:** Yen would be between maybe 8% to 9% of the 16%.

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

**Moderator:** Thank you. The next question is from the line of Arjun Khanna from Kotak Mahindra Asset Management. Please go ahead.

**Arjun Khanna:** Sir, thank you for taking my question and congratulations on a good set of numbers. Sir, just on this localization plan. So, effectively, what you just answered in the previous participant is essentially we are even with our plan, we will have that 10%, 11% as imports. Essentially, what is the scale one would require to actually move towards full localization? And this component, is it largely the compressor? And in terms of technology, are we there to set it up with our partners?

**Parmod Duggal:** So whatever remaining localization is there is primarily divided into three parts. One is the raw material, which is getting imported either from China or from Japan. Second is certain proprietary part for which the value chain is not available in the country and the scale required for such localization, one, investment high and the output has to be substantially consumed in India. And the third part is where there are certain residual models where the localization is not viable because models are on a downside or maybe on the end-of-life side.

So if we separate out of this 16%, may be 3% will go to the last 8% means 6% to 8% would be on the raw material side and between 4% to 6% would be on the proprietary part. So localization of raw material depends upon the economy of scale because huge investment required and the large companies like Hindalco or other big companies, Intel, etc. would be required to localize these parts.

So that's a separate strategic push. But for, on proprietary part, discussions are ongoing and we are trying to build up the value chain for such proprietary parts. But it is a gradual process.

**Arjun Khanna:** Sure. And could you articulate which parts are these?

**Parmod Duggal:** So there are certain electric motors, there are certain seals, special made seals, there are material for pistons, which are high-grade piston. There are cladded aluminum material which is very specialized for heat exchangers. So these are kind of parts.

**Arjun Khanna:** Sure. And sir, as EV starts getting into a sales part of it over the next 12 months, one, would localization effectively come down because right now you said we would be more bought-out components? And two, does this mean that our margins come down in terms of percentage terms, absolute obviously will increase since you mentioned the salience of the part is 1.8 times? But in terms of percentage margins, how should we look at it, sir?

**Parmod Duggal:** I will not say it will substantially impact because next two years, the base of EV will not be substantially high. If you are talking of 1 million EV, we are talking of six to seven year scale, right? The number of EV has been a lag and two to three years, it is not going to jump to may be more than 10% to 15% or 20% growth or so. So it is not going to impact overall business on a negative way. But, yes, it will start with the high MSR, but gradually it will come down, but it will not have a significant impact on the bottom line.

**Arjun Khanna:** Sure. And in terms of margins, would it be significantly lower just to understand the EV margins?

**Parmod Duggal:** No, it will not be lower because of the new technologies, slightly, it will be better than the existing.

**Arjun Khanna:** Sure. Thank you and wishing you all the best, sir.

**Moderator:** Thank you very much. Ladies and gentlemen, as there are no further questions from the participants, I now hand the conference over to the management for closing remarks.

**Parmod Duggal:** So thank you very much. We have already summarized most of the part of our business operation, about the new product development, about the businesses in pipeline, technologies in pipeline, and also the capacity expansion plan. So overall, based on the current business situation, we see a very encouraging year '24-'25, subject to any disruption which may not impact us negatively. But overall, there are good positive sentiments and we try to utilize this favourable to our business. Thank you so much. Thanks for your attention.

**Moderator:** Thank you, on behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.