"Gabriel India Limited
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MANAGEMENT: **MR. MANOJ KOLHATKAR - MANAGING DIRECTOR - GABRIEL INDIA LIMITED - GABRIEL INDIA LIMITED**
MR. RISHI LUHARUKA – CHIEF FINANCIAL OFFICER - GABRIEL INDIA LIMITED
MR. NILESH JAIN - COMPANY SECRETARY - GABRIEL INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Gabriel India Limited Q1 FY2022 Earnings Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Kolhatkar, Managing Director of Gabriel India Limited. Thank you and over to you Sir!

Manoj Kolhatkar: Thank you Mallika. Good morning everybody. I hope you are able to see the presentation as well as I speak. So welcome to all of those who are present on call and I hope that all of you and your families and near and dear ones are in the best of health and safe in these pandemic times. Joining me today on the call is the Rishi Luharuka who is our CFO, Nilesh Jain, our Company Secretary and our investor relations advisors, SGA. I hope you had time to go through the financial results and the presentation as we had our board meeting yesterday and also our AGM, so we did publish it yesterday itself. Firstly, I would like to update on our operations on the first quarter as you know while it started well, the fourth quarter of last year was absolutely terrific.

The momentum continued in April as well, but yes we all know what happened in the month of March, April and also May, the second wave which was really devastating. Everything was really adverse and we saw the worst of times as a country and what was different in this time shutdown was that every state has its own shutdown, in fact not only every state, every city, every municipal corporation had a different shutdown period or different restrictions, thereby what happen was obviously we had to operate the plants again I am talking not only as Gabriel but even as industry we had to operate plants at suboptimal level because some customers will open, some were closed and we still had to keep the show running, so that was very unique challenge that we faced during the second wave. In fact all of our plants were kept running except Nashik plant because there was a mandate again from the Nashik Municipal Corporation to keep the entire Nashik shut for one week.

June production however was fairly good, fairly robust almost back to 90% of levels and OEMs continue that normal level of production even into this quarter. Now before we get into numbers, let me provide you an update on how the current environment is shaping up, auto sales as a segment has improved from July because all restrictions are eased though not entirely, we are still seeing like the city where I am in Pune, we still have 7 to 4 pm business timings for shops and establishments and weekend it is closed, so again we are seeing local restrictions being very different in each geography. But the demand is strong, we are seeing a very early pickup in all segments except commercial vehicle of course. Demand recovery to accelerate in the coming months on back of improved sentiments. Faster roll out of vaccination we have seen that is improving very well and economic activities also gaining traction. Overall demand for passenger car is robust, we are seeing huge waiting periods for passenger cars even now mainly led by preference for personal mobility and also after all these lockdowns there is a clear consumer sentiment to spend that is the human nature.

There is low inventory also in the system in the passenger car particularly so that is also creating definitely a robust demand as far as passenger car is concerned. Rural sentiments remain robust, monsoon started well, stopped a bit in between but again it has caught up very well so I think that should augur very well for our economy engine. Two wheeler was little below the expectation, but again we are seeing that demand also picking up in the month of July. Commercial vehicle which I mentioned obviously it is showing an improvement, while two wheeler and passenger car is almost back to normal days, CV is still quite far away from the normal production levels, particularly the MHCV segment. This as you know during the monsoon the construction activity etc., is put on hold so there will be a little lull but we expect the demand of CV to start picking up let us say from the month of September onwards.

With COVID-19, we have been battling for the past more than one and a half years and it has brought spirit of resilience, adoptability and togetherness in each of us at Gabriel and at Anand Group. We feel we are better prepared this time while there are talks about the third wave, nobody really can predict, but yes as going by the predictions which we are aware of in all likelihood towards the end of August, early September is what the third wave is expected to hit. The impact is not going to be as severe as the second, but yes there are chances again of some disruption that may happen, we really do not know, it is anybody guess. But regardless we are taking utmost care of all our employees and their families we have ensured vaccination of all our team and in fact families we have done it at our cost for employees so that goes on. We have finished 94% of employees who had done that first vaccination, the balance of course is due to those people who are recovering from COVID so there is a waiting period before they get the vaccines.

Now moving to the numbers, while I am not referring to the presentation as such, as it has already uploaded, with the onset of the second wave of COVID auto industry face a lot of challenges despite that we reported a topline at Rs.453 Crores and EBITDA of Rs.25 Crores and PAT came in at Rs.12 Crores for the Q1 of 2021-2022. Indian auto industry faced severe restriction due to the second wave as I already mentioned. We started seeing recovery in demand from June onwards, so we hope that this continues as I said the only if is the third wave otherwise we will see really very good demand going forward. We have recorded a 19.4% year-on-year growth in EBITDA to 25%, margin stood at 5.5% for the quarter as I said May really upset all calculations for all of us, margins improved on account of cost reduction measures we have done despite this and one big impact has been as you all have been witnessing is the commodity price increases that we are seeing in the market and these just go on unabated, just to mention this cold rolled steel which we use or the hot rolled steel which is the main ingredient for auto component industry or automotive OEMs. In March 2020 when we had the first lockdown it was about Rs.45 per kilo that has gone to almost Rs.82 per kilo and in fact is going further up in July, we do not know when this is going to stop, so we are seeing a similar trend in forging steel, we are seeing a similar trend in aluminium, in rubber, in copper, every commodity that we have we are seeing a similar unabated price escalation. So this obviously is putting a serious challenge to us in terms of the margins. We have a back to back with customers, most of our commodities are indexed and there is a lag depending on the next quarterly or six monthly, but yes obviously this has an impact on the overall profit percentage.

Moving on to the balance sheet and cash flows, we continued to maintain a robust balance sheet position with net cash of Rs.203 Crores, we have continued our thrust on collections and are working to reduce our inventories. However, we have also taken a conscious decision looking at what happened last year of holding some inventories for the festive season, so that is a very calculated and logical decision that we have taken. In terms of capex, for the quarter it stood at almost Rs.19 Crores and the capital investments is mainly in the field of R&D, automation, and line balancing, which is needed for the future.

Coming to segment wise performance in two and three wheeler we continue to see good traction. Two wheeler segment scooters improved significantly. Even motorcycles improved by 160% and mopeds by 43% in this year. Talking about two wheelers of course what is the talk of the town is with EV. The EV two and three wheelers, so the trend is really catching up for mainly I would say two reasons. One is the government subsidiaries, which are announced in Fame 1 and now in Fame 2 and added to that the fuel price increase, which the petrol has gone beyond Rs.107 also in some places, so this is really pushing the adoption of electric two wheelers and three wheelers faster than probably what we expected and there are a lot of incentives that each government is offering. But as mentioned earlier we have got good orders with all the key two wheeler makers. We have got the order for OLA electric as you know, the launch is planned on 15 August, 2021. We have Okinawa, Ampere, Aether, TVS Electric, and in three wheelers we are with Bajaj, we are with Mahindra, we are with TIwho are coming out with the three wheeler, and we are with Kinetic Green so all this is already with Gabriel. So we are well placed that is the message that I am trying to convey in terms of EV adoption in two wheeler and three wheelers. In passenger cars the EV adoption is still slow. Our penetration also is not strong in the EV as of now. We are with the Mahindra EVs for sure. We are not on the Nexon EV, but the pace of adoption is a little slow, but our efforts are on to see if we can make inroads there as well.

Coming to passenger cars of course in the overall segment we had as you know we had lost on this segment due to some of our models going out of production like the Wagon R and Alto and also the Omni so this definitely took some of our volumes away. But we have been working to build the business pipeline, which I have been continuously updating you on every call. Now I am glad to share that our market share has increased from what had gone down to as low as 17% to now 21% in this quarter and this is going to go even further up because we have got a lot of new models and particularly with Maruti, we have got a new Alto so this will help us increase. This launch is of course in 2022-2023 not in this year. We have got the new Brezza. Brezza is with us itself so it is not incremental but any new model comes with higher sale obviously. But one good new addition is the Maruti Jimny, which is completely new in terms of volumes and model to us so this again with Gabriel and we are also of course readying for the launch for the SUV of Mahindra XUV700. You are seeing a lot of advertisement on the TV for this particular model very exciting model and we are also offering our new technology on this product so we are well on our way to increase our market share as was planned and you are seeing those in numbers as well now in terms of the percentage increasing. With the commissioning of our new tech center, which we have built in Jharkhand absolutely state of the art tech centre. We will be in a better position to offer better value to our customers and increase our market share further.

Moving to CV sales, sales have picked up as I said. Our dominant position continues, we will have to have wait for the industry to recover. But we are definitely seeing a better than expected recovery I must say in the month of July and going forward in the month of August and September as well and from September onwards, it will definitely I think it will be even better. After market continues to be a strong story. We are leveraging the brand Gabriel by launching new product lines. All our new products lines the big pads which we launched and the dry shaft which we launched are doing extremely well in the market. Very good reception received by the market on this front. We had revenues of almost Rs.65 Crores in aftermarket now contributed to 14% of the total revenue so this what used to be 12% to 13% has gone to 14% so we are taking a very vigorous push on the aftermarket both in exports and as well as domestic.

Coming to exports, which is something that I want to share on a positive note with all of you. We are seeing very strong traction in the exports and we are seeing our export numbers, in fact among the best that we have seen ever in the Q1 as we can see on the slide, which it is being shown currently. Our Q1 FY2021-FY2022 our exports sales was almost Rs.25 Crores which is the highest ever by a handsome margin and this is only increasing. We are in the production mode for the DAF of Netherlands for the commercial vehicles and in fact as we speak, just last week they have added DAF Brazil also to our kitty and they have asked us to export to DAF Brazil as well and shortly they would ask us to extend this to other continents as well based on the good performance of our product. So this is good news. Volkswagen

Russia volumes are very steady and we are exporting almost five containers a month to Russia so even that is going well. Even Yamaha exports that we do for the golf cart, this goes back to Yamaha, Japan. This we have been doing for several years, but even that has seen a small pickup however the volume is quite small, but yes nevertheless we are seeing a pickup even there also.

Now coming to the next slide, which is Electric two wheelers I have already mentioned so I will suggest some figures for all of you, which are put up here. So we are seeing a good traction as regards to Gabriel is concerned on this front.

We also did just a mapping up from 2014-2015 to 2020-2021 or actually if you remove 2020-2021 because it is a COVID year we tried to map as to what is our growth compared to the industry growth and we are glad to see that our growth we have consistently outstripped the market growth in terms of percentage. Our growth has been better than how the market has grown in this seven to eight year period. So the only issue was passenger cars, which I have already told you we are well on track to reverse this trend as well.

I have been sharing this core 90 initiative, which is cost reduction in 90 days. This has become a theme back bone for all of us with weekly reviews. Yes there are challenges continuously coming in terms of particularly commodity price increase so this is helping us offset to the best possible that impact and remain in good health.

So this is ofcourse the vision, which we have shared with you to be in the global top five based on these four pillars. Exports we are seeing good movement there. Domestic dominance particularly in cars. We are now getting back covering our loss down. Standing for opportunities continues as we speak. Tech centre I already did mention to you on the tech centre part so this is in short that what I had to share with all of you. Yes we are seeing lot of challenges in terms of commodity price increase apart, we are seeing challenges of the OEM itself in terms of semiconductor shortages. Yesterday morning there was news about Suzuki Motor Gujarat having to shut for three days for chip shortage. Similarly this is faced by Tata Motors and by Mahindra most of them though this is much lesser than what is seen in terms of shortage globally, but even India automotive industry is being hit now by semiconductor shortage and this will go on as they say for close to a year because this is a global shortage scenario mainly arising due to the rise of digital use of every person on the planet which has caused this shift in supply demand as regards to the chips are concerned. But overall I think the good part is all employees are safe and healthy and we are all set to see and to cater to the increased demand because we still see the demand being robust and we are hopeful that we will be able to outperform the industry in the coming quarters as well so on that note I come to the end of my opening remarks. I would request the moderator to begin the question and answer session and we will be glad to answer any queries that you have or take any suggestions that you have. Thank you so much.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Viraj Kacharia from Securities Investment Management. Please go ahead.

Viraj Kacharia: Thanks for the opportunity. First of all congratulations for a decent set of numbers in such a challenging environment. I just have three broader questions. First is on the margin front so even before the COVID we have been taking the cost initiatives and in the last one year we actually added several cost programs as well so I understand right now we are facing a lot of commodity pressure but how should we understand the sustainable margin profile for us considering all the efforts we have been taking towards the cost and other measures and in relation to the kind of efforts we are also taking in terms of moving to higher tech products so in the long term if I were to look at the next two to three years or five years what is the kind of sustainable margin one should be expecting in the business? The second is in the EV part of the business especially for two wheelers and three wheelers compared to ICE engines, how would have our market share be? So in ICE we see certain large players catering to in house group companies, but in EV world how does our overall competition in market share based on existing pipeline is? These are the two questions. Third I have on export, I will just ask afterwards.

Manoj Kolhatkar: Thank you Viraj so on the margins part unfortunately, we were also well on our track last year. Our continuous aim has been to get to double digits and I am talking about EBITDA. That has been our continuous aim so we were getting there. But this commodity price inflation has really again impacted, it is not only Gabriel but the as an industry we thought that this will start easing off from April 2021 onwards but this does not seem to be easing off. and even if we get a complete recovery from customers it has in terms of the percentage, it definitely upsets the percentage. so again as these factors will happen to come down may be one quarter to two quarters this has to come down. Then you will start seeing the margins get back to healthier levels in terms of inching closer to double digits. So long term if you ask me if I discount these short term abrasions that happen and our aim continues to remain in double digit, it is a challenge but we clearly feel that now with exports & aftermarket picking up, also passenger car improving, we hope that we will be able to see better utilizations that is also very important for a company like Gabriel. We are built for volumes, so we need these volumes to help us. So I think we should definitely get there. In Short term yes it will definitely not be double digits. I think margins around 8% will be good enough. Again as I said it is anybody guess.

Viraj Kacharia: Just a followup on this. When we say we have aspiration of double digit EBITDA margins is it largely dependent on volume recovery? So is it a function of operating leverage or which is also led by elements like product mix either led by EV or higher share of exports, auto market? Could you f give some color on margins?

Manoj Kolhatkar: Obviously we have made a plan distributed across various levers for margin improvement. One lever of course is very clearly improving our exports and aftermarket which I mentioned all along. Product mix in terms of our own kitty and commercial vehicle if that segment improves naturally it will be better. Railways is one segment which did extremely well in the year 2019-2020, but after COVID it has reduced to less than half. If that also happens because it is bound to happen again, I am not trying to fly a kite here. Railway is surely going to recover. It is only a question of time. When these things happen like improvement of CV and improvement of railways, we will definitely see improvement in margins as well so that is why I said I think it is a temporary setback. What is important now is to watch the numbers, is to ensure safety of everybody and to ensure that we continuously focused on improving market share. That is what is our plan as of now. Coming to your second question, which is EV mix. The market share in CV as I said we are focusing on two wheelers and three wheelers because that is where the action is happening so as of now yes we are well positioned to improve market share but we do not know how the market is going to move because OLA has announced 2 million per year. Whether that will happen or not happen is anybody guess. So it is really difficult for us to say how much of this will translate into actual volumes and thereby our market share. But the good part is we have just hedged our best by ensuring that are there with all the key players.

Viraj Kacharia: Just last question is on the exports part. If I were to look at our journey, I have been trying to pick into major export market for quite some time and last one year we have seen to get a couple of breakthroughs so if I were to understand this better you talked about DAF having a possibility of catering to more wider plans so how is the scope of exports mood for us not just for DAF but other customers, but how is the pipeline looking like? Any color you can share on that? What is the kind of opportunity one can look at if I was to look at that exports? Thank you.

Manoj Kolhatkar: Exports is actually it is in two parts. One is aftermarket. One is OE. OE was not really very good so that is where we are focusing on. It took as I said five to six year for us to break through but if you remember I had always told that once we unlock one good marquee customer it will open up doors for the rest. That is exactly what is happening. I am happy with the way it is moving. We unlock DAF Netherlands. The DAF Netherlands has unlocked Brazil, now probably Australia is going to come through and some of the continents as well and within DAF world now we have already got some other RFQ that we are working on. Similarly now that we have DAF, we are able to tell other customers that we are supplying to marquee customer like DAF. Volvo is showing some interest so we are in an advanced stage with Volvo as well for global RFQ. We are in touch for Leyland global RFQ so we see this happening yes. It is a little slow process, but this will definitely happen. Similarly in passenger cars, Volkswagen we started with just our first order I remember of it was just to meet their some issue that they had online with other suppliers. We had just an order of about 10,000. Now the 10,000 has converted into few lakh of pieces almost 3 lakh per year and this we see again opening up doors within Volkswagen. So thats how it goes. So the good part is it is definitely going as per plan. In terms of visibility, it is difficult to give you right now but yes we are in advanced stage working with two global customers for commercial vehicles for sure and one big passenger car manufacturer as well.

Viraj Kacharia: You are talking about two global OEs for CV and one for passenger vehicle? This is in addition to the customers we are already catering to?

Manoj Kolhatkar: Yes. These are totally in addition to what we are talking off. I am sure one of them will definitely come through and I am not even talking of other customers where have got the RKQ. I am talking of the ones where we are in advanced stage of discussions.

Viraj Kacharia: Okay I will come back in the queue. Thank you very much and good luck.

Moderator: Thank you. The next question is from the line of Amar Kant Gaur from PhillipCapital. Please go ahead.

Amar Kant Gaur: Thanks for taking my question. Sir what I wanted to understand was on the gross margin side what is the mechanism of passing through the cost increases? What kind of contracts did you have with the OEMs and how often those contracts are renegotiated as far as pricing is concerned?

Manoj Kolhatkar: Like I mentioned Amar we have a back to back arrangement with actually all the customers for a pass through. The only thing is the period varies somewhere it is quarterly, somewhere it is half yearly and in some cases it is also on a yearly basis. Otherwise let us say steel increases Rs.10 in the market, we get the entire Rs.10 back. It is not that we do not get it, but we get it with one quarter delay and then having said that we are also as you know we are also a proprietary supplier so there are some parts and come commodities, which are not covered back to back because we also want to keep it as a black box so some are not index entirely but those are very small numbers. The large ones, which is steel, aluminum, oil these are covered back to back with supplies with OEMs. xx

Amar Kant Gaur: Let us assume that there is one quarter of lag in terms of recovery when the costs do start to go down then is it fair to assume to that you will have a double benefit of it prices going down and greater recoveries going to a quarter lag?

Manoj Kolhatkar: Yes obviously. That lag effect will be there both ways. When it goes down there is a benefit. When it goes up and in a consciously increasing scenario it obviously is more adverse.

Amar Kant Gaur: So if the costs even stay at these levels our margins should improve given the fact that these costs that we are yet to recover from the OEMs will start coming in a quarter later?

Manoj Kolhatkar: Yes.

Amar Kant Gaur: Thank you for that Sir. Second thing is in the last call we had discussed about some premium OEMs and our products being tested by premium OEMs like Audi. Is there any development on that side or maybe any other OEMs for that matter?

Manoj Kolhatkar: As I said Audi we have an RKQ from them and of course we could not convert it into business. We keep getting. The point is Volkswagen has now identified us as a global supplier so we keep getting opportunities even from Audi. That is the point that I will make, but let us talk about commercial vehicles, DAF Netherlands is like an Audi of commercial vehicles. That is where we have broken so far. We are in advance stages of discussion with Volvo and which is something we are supplying to Volvo Eicher, not Volvo exactly but Volvo Eicher. Volvo again is a very good plan. In passenger cars we have got RKQs I would say only Audi because Volkswagen is what is opened to us, but no we have not been able to convert them into business as of now.

Amar Kant Gaur: That is great to hear Sir. Thank you. I will fall back in queue.

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

Sreemant: Good morning. Thanks for the opportunity. The first one is I would like to know your comment on the margin profile towards the supply in the EV segment. How would that compare with the existing two wheeler customers especially the supplies that we are going to do to OLA?

Manoj Kolhatkar: Rishi you want to take that.

Rishi Luharuka: Thanks a lot for the question. While we have said that in the previous call also that OLA as far as the product is their different but as far as the pricing is concerned it is fairly competitive for the two wheeler space given that we cannot share the details exactly how it is, but it is fairly competitive.

Sreemant: But on the margin front, profile would be similar like when the pricing is similar?

Rishi Luharuka: Similar may be even a tad better.

Sreemant: Has the deliveries started on Ola electric because they are looking to commission in the next few days?

Rishi Luharuka: No it is still in the development phase. The mass production is planned not in the month of August. It is just the launching of the price launch that they are planning. The formal SOP is still yet to happen.

Sreemant: Got it. Sir the second question is on exports given that we have taken five to six years to break even in the initial OE customers in the export market? For the new customers that we are looking to service, what should be the time frame that we should look to start catering to these customers? How much it should reduce now?

Manoj Kolhatkar: In terms of export customers.

Sreemant: For example you said you have two global CV and passenger cars customers you are in talks with? What should be the timeframe, that we should look to start catering to these customers? I understand the initial customer, the first customer took about five to six years to break through in the export market, but going forward what should be that time frame?

Manoj Kolhatkar: Like I mentioned DAF we had started with only one part that lead to two other parts so that has happened very quickly. So similarly within the DAF world now, DAF is part of Paccar Group so you have DAF, you have British Leyland, you have this trucks in US and Peterbilt Trucks. All of those are part of their profile so obviously that time will be much lesser breaking into that family of trucks. It would definitely be a much lesser similarly even for Volkswagen the time would be lesser within the Volkswagen world but let us say I have to approach completely new customer not Volkswagen. Then the time will still be three to four years.

Sreemant: Okay got it. Thanks.

Moderator: Thank you. The next question is from the line of Priyaranjan from HDFC Mutual Fund. Please go ahead.

Priyaranjan: Thanks. My question is on the two wheeler mix. Two wheeler and three wheeler what we say is roughly ~ 65% that is the annualized number or broadly our top line so what will be the broader split between say motorcycles, scooter and three wheelers if you can help with that?

Manoj Kolhatkar: The split Priyaranjan will be mainly tilted towards two wheelers only. As you know two wheeler is what is selling currently if you see the numbers as well let us say for even if you take 2021 though it was a shorter year but a total of about 2,40,000 EVs got sold. Out of 2,40,000, two wheelers itself was about 1,60,000 and so the bulk is two wheelers. Three wheelers is of course also good. Out of the 241 lakhs units, car is practically nothing so it is ~ 160,000 units of two wheelers and about ~70,000 units of three wheelers. That is the split and that will continue. Of course I am not counting those what you call three wheeler contraptions that you see in the cities in Gurgaon, etc., that thereby compete kits from China or pickup from the spare parts or whatever. So I am not counting those. I am counting the ones, which are reported in the three wheelers.

Priyaranjan: What I am saying is between us? For our revenue so what will be coming from say scooters within that?

Manoj Kolhatkar: I think most of it will be scooters. So if you see our own spread of customers like Ather Energy we are in scooters. Tremendous growth is being seen there. OLA electric scooters, Okinawa scooters, TVS again scooters, Ampere scooters so all this is scooters. The only motorcycle development that we are seeing is may be to some extent Revolt where were are not a source but we are in discussions with them. That is the only motorbike but I see motorcycles may not catch up because motorcycles have more commuter or rural usage or pleasure biking. EV may not be a right fit there. Scooters definitely are more of a intra city unisex kind of a model. Three wheelers of course we will see a lot of traction. For three wheelers again I have already mentioned names like Mahindra electric, Kinetic Green, TI Cycles, TVS also, Bajaj also all are with us

Priyaranjan: Sir in ICE side, the ICE two wheeler side what will be the broad breakup between say motorcycles and scooter for us?

Manoj Kolhatkar: Rishi you have it.

Rishi Luharuka: Give me a minute. I will just pull that out and let you know. If you can move with another question will let you know.

Priyaranjan: Sir in terms of we have done one last thing on the cost front? You have been talking about lot of localization for last many quartesr so when we think we will start hitting some of those localization in our numbers?

Manoj Kolhatkar: We will see that happening towards end of this quarter.

Priyaranjan: Okay that is all from my side.

Moderator: Thank you. The next question is from the line of Nishant Vass from ICICI Securities. Please go ahead.

Nishant Vass: Thanks for the opportunity. Sir my first question is more of a clarification in terms of your product level of share of business with the new customers, because you are obviously working a lot with the EV guys specifically OLA for example? How do you compare that in terms with your existing ICE, OEMs, HMSI for similar parts? Is the share of business with these customers higher or similar because it is competitive to just get a good competitive intensity? The part association question is that how are the product levels specifications in terms of the product development on these parts that you are building for EV guys? Are they bit different in the technology requirement or specifications in terms of the tolerances and complexity of parts? So can you share some thoughts on this?

Manoj Kolhatkar: Sure Nishant. Firstly on the share of business, OLA we are 100%. It is far better than what it is in HMSI because HMSI we shared business with our competition Endurance. So that is the first part and you said on the second part of the EV product specifications largely they are the same. In two wheelers particularly there is not much difference, but we are working on any innovative things that we can do for them, particularly for two wheelers that is still under concept stage, but it is the same shocks and front fork but for OLA of course we are giving a new technology for front fork as well as rear shocks. Yes the new technology roughly it will be equal to ICE engines so it is not anything specifically developed for OLA, but we can give to it to anybody. To answer your question there is no difference in the product as such as of now but in the cars again if you see the products that we are giving for Mahindra Electric in terms of their E Verito or EKV, we are suppliers to them for both the platforms very small numbers but the shocks are the same just we had to do some minor retuning but essentially the shocks and the struts are the same, but going forward as they call pure clean sheet EV or a born EV as they say for that in the passenger car there might be requirements where the noise levels have to be even better because it is a silent car. The noise which we have given in an electric passenger car, when you suddenly start hearing the noise of the AC which you never hear in a normal car. The sound inside the car will become very critical so to that extent the noise may play a part again where we have some solutions.

Nishant Vass: Sir just to take a associated question to your response and you were mentioning a previous question there is how the pricing is competitive and margin is slightly better so is it fair to assume that with the new technology parts your potential content for vehicle in an EV scooter in an ideal scenario, does most of your products get adopted by a customer or is it higher than your let us say your best IT scooter content or vehicle or is it similar?

Manoj Kolhatkar: Yes.

Nishant Vass: The content of vehicle is higher if you were able to supply all your parts to a specific customer, the content is higher and just to clarify because generally in ICE the supply schedule there is a general waterfall pricing with volume? Is it a similar construct of pricing over a longer period of time with the EV customers as well in terms of waterfall vis a vis pricing and volume?

Manoj Kolhatkar: Year-on-year reduction as you call it right.

Nishant Vass: Yes?

Manoj Kolhatkar: Year-on-year reduction again it is all a factor of costing. If the customer is interested on year-on-year, we build it in a cost. Secondly if we give a year-on-year, we also get the time to work on our reductions with our suppliers, with our processes, with our efficiency to ensure that margins do not degenerate. So that is a normal process I think. There is nothing different.

Nishant Vass: One small clarification is my last clarification is that so when you talk margins are competitive or slightly better I would assume that you are basically coming from JV as well, the gross value add is better in that sense in an EV part vis-à-vis.

Manoj Kolhatkar: It should be.

Nishant Vass: Fair enough Sir. Thank you so much for your clarification.

Rishi Luharuka: So before we move on to the next question Priyaranjan to your question we had 80% in two wheelers and 20% three wheelers. Of this 80%, 60% is motorcycle.

Moderator: Thank you. The next question is from the line of Anand Shelgaonkar from New Port Capital. Please go ahead.

Anand Shelgaonkar: Thank you for this opportunity. I just want to understand how the EV industry or demand would foresee over say the next three to five years. So my question really is I can understand new EV maker coming up with new launches and therefore production moving up for the next one year and one a half two years, but from the customer demand point of view, I suspect this could be a zero sum game because if I buy an EV, I am not going to buy the ICE, which

I would have bought otherwise so forget the bump up in the next one and a half to two years and for over three to five year period do you think this is going to be a zero sum game for say companies like Gabriel who supplies to both EV as well as ICE?

Manoj Kolhatkar: Good question Anand. I think it will not be zero sum game, but it will not be definitely not be a net pure increase. There will be some cannibalization that will happen. As I said there are different profiles and usage of the EVs. EVs whatever we know will definitely impact the intracity customers who are commuting 10 kilometers to 20 kilometers. You are seeing just to share with you most of our house helps, drivers, etc., they normally now have a scooter for commute. So those commute segment will get shifted to EV most certainly, but the rest of the customers who are doing long distances or who use their two wheelers as mode of "freight transport also" because that is very prevalent in India. Secondly in the rural market where the usage is far more or far higher that is why you see more motorcycles in the rural market. So that segment will practically be untouched and thirdly what is going to happen there are these electric two wheelers, will give rise to a new market as well in turn it will increase the overall market size there might be some customers who will just want eco friendly and today they do not have a scooter, but they may think okay for short distance why I do not consider an EV scooter so I will make a statement. Those kinds of customers that definitely will give rise to an incremental market. So it is a mixed bag and there is no straight answer to it. Scooters will some in substance the scooter will definitely take a little bit of hit when it comes to EVs, City scooter.

Anand Shelgaonkar: Sir most of the examples that you quoted there still seemed to be explaining how the shift would happen? but it is not very clear how the pie would grow bigger so I still continue to believe that may over a five year period the volumes for something like a Gabriel total volumes of scooters will be similar?

Manoj Kolhatkar: It will still be little higher. Now the pie getting bigger even in the current stage there will low speed scooters, which do not need a license. We are also supplying to them. They do not need a license as such. They travel only up 30 kmph so that obviously is catering to a different market in terms of age or those who do want a license at all so that is creating a totally new market so that is why I said those numbers might be totally purely incremental. This will bit it down over the long term. Over the long term these customers may not many, but still I will say I have not still seen any research on this front as to how much cannibalization will happen, but I still believe there will be an overall increase in the market and the impact you will not see it in the motorcycle segment almost nothing.

Anand Shelgaonkar: Understood. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Shashank from ICICI Securities. Please go ahead.

Shashank: Good morning Sir and thanks for the opportunity. Sir firstly just wanted to ask if you can share some color about the ramp up at Ola Electrics. So what kind of volumes are they targeting for the next six months and year kind of?

Manoj Kolhatkar: Shashank sorry I will not be able to share the volumes because we obviously sign a confidential agreement with them. But you are seeing in the papers the ramp up even in this year is gradual. They are mainly starting from let us say from the month of September onwards, picking up in December and January and then next year they would definitely want to get that one million what they have planned.

Shashank: Sir we are not short of capacity right?

Manoj Kolhatkar: No. already we are making some minor investments for incremental capacities which we have already done.

Shashank: Again Sir what would the capex for this year and next year ballpark numbers?

Rishi Luharuka: Shashank this year it will be in the range of Rs.100 odd Crores.

Shashank: Sir just lastly you have a vision of being the top five guys globally you intends to do it by inorganic route as well, any progress on that front?

Manoj Kolhatkar: We are in the process of scanning couple of opportunities. Currently it is ongoing, but we can only share it once it matures to a certain extend.

Shashank: Sure Sir. Thank you so much and wish you all the best.

Moderator: Thank you. The next question is from the line of Saurabh Shroff from QRC Investment Advisors LLP. Please go ahead.

Saurabh Shroff: I am saying that just looking at your quarterly numbers for the last 10 to 12 quarters between employee expenses and other expenses it has been a sort of very tight range of Rs.80 Crores to Rs.90 Crores which is very commendable because the revenue outcomes have been all from Rs.300 Crores to Rs.550 Crores. So just so that we can appreciate better what is the quantum of cost that you have taken out so that we can better appreciate what is the operating leverage sitting in the business is because you mentioned that as probably one of the more important levers because to me when I look at it, it looks like all of the margin that we have seen is primarily because of raw material inflation not just for two quarters but even across three years? When things normalize and let us say we go back to that 27% to 28% gross margin how much is the EBITDA lift that we could get?

Manoj Kolhatkar: Rishi on the screen you have shown that right.

Rishi Luharuka: No Sir. It is only for us to look at. So Saurabh again on the overhead please we have been running this core 90 for the last two years now and this is the third year. So we have had considerable amount rising out of that program. I will be able to give you a percentage range of benefit between 1% to 2% is what we have been able to manage on account of fixed overhead. On the manpower side again with the increments coming in and thereafter normalizing we should be able to sustain at the current percentage levels.

Saurabh Shroff: 1% to 2% that is great. What is the utilization levels that we are running at right now?

Manoj Kolhatkar: I think practically all the plants, plant which caters to Maruti is running at 80% almost. We are seeing even two wheeler plants running at similar 70% to 75% capacity. Only Devas plant, which is commercial vehicles that is running at I would say at 55% around that range, but the rest are pretty much 70% to 80%.

Saurabh Shroff: The sweet spot I guess for the overhead observation is anything above 90%?

Manoj Kolhatkar: Above 90% will be a stretch, but 90% also will be very good.

Saurabh Shroff: Excellent. Thank you very much and all the best.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Kolhatkar for closing comments.

Manoj Kolhatkar: Thank you once again for all the queries and hopefully we are able to answer most of them. Yes I can see a lot of interest around EV, but as we say it is an involving space even between the last quarter to this quarter there has been a significant change. There have been two significant change points. One is the Fame two and the second is the fuel price crossing the mental barrier of Rs.100. It is a segment, which is literally evolving by the day so we also have to be closely in touch without our eyes and ears on the ground and do the best. So the best strategy that we have adopted is to stay close to the customer, which customer is going to win is anyone's guess. The strategy is clear as far as we are concerned and coming to the rest of the market yes certainly the only big if which I mentioned is while the volumes look robust the passenger car demands seems really very, very strong. Two wheelers also are reasonably strong. CV is going to pickup. The only if is the third wave. Let us hope we do not see a major disruption and let us hope that we do not see impact on health of people of the entire country. That is the only hope that I have and that is all that I have to share. Since the next call will be only post the festive season, I wish all of you a very, very happy safe, healthy festive season and would just urge and caution everybody to still keep their guards up and stay safe and stay healthy. Thank you so much.

Moderator: Thank you. On behalf of Gabriel India that concludes this conference. Thank you for joining us and you may now disconnect your lines.