“Gabriel India Limited
Q1 FY2023 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Gabriel India Limited Q1 FY2023 Earnings Conference 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 the 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 "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Kolhatkar - Managing Director of Gabriel India. Thank you and over to you, Sir!

Manoj Kolhatkar: Thank you. Good Morning all. This is Manoj Kolhatkar. A warm welcome to everybody who are joining on the call today. Joining me is, Rishi Luharuka who is our CFO, Nilesh Jain, our Company Secretary and our Investor Relations Advisors, SGA.

We have uploaded our results and investor presentation for the quarter ended June 30, 2022 on the stock exchange and the website. Hope all of you had a chance to go through the same. I will come to the presentation side by side but before that I will just set the context.

Briefly I will just tell you about the operations of the company for the Q1 FY23 so just to share that it has at least started on a good note after two years of COVID. This first quarter has been very strong and thankfully for all of us we have not seen COVID pandemic wave hitting us. Yes, of course we all know that it is entirely behind us but I think the vaccinations overall has helped the country at large so we have seen a robust industry volumes and that is reflecting in our results as well.

Also, we are seeing lot of new models being launched and many more yet to be launched just before the festive season, so our utilization levels have also been fairly good. Before we get into the numbers, I will provide a quick update on the current environment so Q1 FY.23 was of course much better than the quarter of last year because we all know in last year we had the COVID second wave hitting us so we had subdued sale in the month of May and also in June to some extent so this clearly reflects in the result as well. However, automobile industry continued to witness increases in prices of steel, aluminium, and other metals.

Semiconductor shortage also is not entirely behind us but as you all have seen the order book is very strong and particularly the passenger vehicle players have been able to introduce lot of new models in this rather euphoric environment. Passenger vehicles saw improved performance in the first quarter driven by several of these new launches, EV in supply chains some of the OEMs were able to manage the semiconductors issues a little better. We also saw in the first quarter after a long operating almost each quarter of continuous price increases in commodity. We saw a little softening in commodity prices and a shift in consumer preference moving towards SUVs rather than hatchbacks and Sedans. With the upcoming festive season this demand is expected to sustain.

The two-wheeler segment was impacted due to significant increase in input cost, multiple price increases by the OEMs and of course, yes the running cost driven by the higher fuel prices. I think we have been dampners in the two-wheeler which is kind of bottom of the pyramid particularly in the commuter segment. The CV sales, commercial vehicle sales have improved year on year basis and we are seeing higher infrastructure spending by the government, opening of the economy and also increased freight movement so CV segment have also been quite robust.

While I say two-wheeler sales are still little subdued but it is showing signs of improvement ahead of the festive season, retail demand still seems far from the buoyant levels of the whole year as inventory at dealership have remained little over the ideal level. According to many experts, the festive season sales are 20% to 30% higher than any normal month. Many dealers do not expect to reach the pre COVID level of this festive season sales yet especially in the commuter segment but according to dealerships both the enquiries and footfalls have reduced at the dealership.

Coming to semiconductor scenario which I said is getting little better, so we have seen better shipments from all OEMs. Waiting periods in the SUV segment have remained still lengthy. Strong bookings for newly launched vehicles indicate a strong pipeline of demand. EV which is electric vehicle segment has witnessed massive surge as was predicted. EV sales across two-wheeler segments cars have increased significantly even in terms of buses due to the very aggressive push by all state governments, we are seeing good increase in commercial vehicle buses as well; however, that number is very small but coming two wheelers that has been quite robust and the fuel price which is going up is adding to make this equation of cost of ownership even better for two-wheeler dealers particularly.

EV industry can be expected to be consistent. Demand for two wheelers, three wheelers is expected to be accelerated by massive demand from the B2B sector which would also be aided by the gradual shift of two wheelers minus the electric mobility. Their present EVs still account on the overall level less than 1% of the total market in India. The demand is growing very strongly. Out of the total almost three million EVs sold in FY2022 only about 21,000 were EV which accounts to hardly 0.7% but it is up from 0.2% in FY2021 and in fact as we speak in the first six months itself, we have crossed this figure of 20,000 electric vehicle passenger cars so we can see the growth rate is phenomenal in passenger cars as well.

In two wheelers it is far more rapid. I will share the figures also going forward but just to mention the two-wheeler EV is clocking almost 50,000 numbers every month. We had 50,000 in the first few months of this calendar year Jan, Feb, March and then we saw battery fires etc., which slowed down the growth, but it is coming back again to almost 50,000 levels so in the month of July the registration was about 44,000 in EV two wheelers.

Coming to the numbers now I will switch the presentation, since I am at a different location I would request my CFO, Rishi to handle the presentation part which I am surely able to see.

This is slide #3. I will tell the slide number so that you all can refer to that. This is our response to COVID. Why we still put it up because we are still seeing some cases of COVID. Thankfully the intensity is very low and it is normally a mild flu but we should never think that it is not behind us so we are taking all the necessary precautions. We have done the second dose. We have done even the booster dose to all employees, so we continue taking all precautions because safety is of paramount importance to all of us.

These are the supportive initiatives which are so useful for us when the second wave which was particularly devastating which held us see us through that wave, so we continue those initiatives. Coning to the result update, I am on slide 7 which is the financial highlights for the Q1 FY23. As you can see revenue, we had the highest ever quarterly sales crossing Rs. 720 Crores in one quarter so that is excellent work done by the entire team and of course thanks to our customers for having very robust pipeline of orders.

The same figure you can see in the month of Q1 FY23 comparable quarter last year was just 450 but as I said it was COVID impacted month so we really should not be comparing; however, it is 60% higher than that quarter. In terms of EBITDA again we clocked back to 7 plus percent. We are at 7.1% so about 51 Crores of EBITDA compared to the quarter Q1 FY2022 of Rs. 23 Crores and even if you see the last quarter, the preceding quarter is Rs.37.7 Crores.

In terms of PBT we again crossed the 6% which you are doing earlier. The 6.2% which is significantly higher than 3.5% achieved in the comparable quarter for the last year. We have looked up the same numbers, but you see the percentage growth over the last comparable quarter which is Q1 FY2022. Revenue as I mentioned is 60% higher but EBITDA is 120% higher and PBT is 181% higher than comparable quarter last year. We had a net cash position of Rs. 262 Crores and we incurred about Rs. 21 Crores of capex during the period.

These are just the broad trend so that you can understand the trend from the trend perspective, but ROCE is again back to the robust level of 29.2 which is in fact among the highest that we have seen. I would say reasonably good set of numbers, thanks again a good quarter for the industry as well.

This is slide 12 which shows the financial track record trends again you can see after the dip in the COVID year and the last year it is again plowing back to better levels. These are some key ratios as you know we declared dividend of 1.6 so we maintained our consistent dividend paying policy and we have been consistently above 20%. This year in fact there has been 25%.

In terms of segment mix you see the first graph the red bar, Q1 FY2023 you can see that two-wheeler is still about 65% which is the maximum chunk of business, passenger car is 22, CV is at roughly 12% and in terms of aftermarket you can see the aftermarket percentage which is in the second graph which is a replacement market it is 13%, export is still small. I will come to that specific issue, but aftermarket has increased from 12% to 13%. There is a marginal improvement because we have been able aggressively push sales and aftermarket. This is the segmental performance. This is the first slide on two-wheeler and three-wheeler so we have about 30% market share, again in terms of future development again EV continuously remains our focus in terms of getting and improving our market share so we have now brought on board of our new model Okinawa which is very doing very well called the Praise. The start up production is already started so we are on that as well and on several models and as mentioned earlier we have got the LOL for the Hero electric model as well and that SOP is October this year. That was the only thing that was missing so we have got into Hero Electric EV two-wheeler as well.

Coming to the story on EVs where I think Gabriel has done very well in terms of enriching itself, currently as we stand in the month of June 13% of Maharashtra's sales in two wheelers have been EVs so the penetration as we call is 13%. At the country level this figure is still just about 4.5% but in Maharashtra this figure in fact in July is even better. July, I think the figure is 16% so it is Maharashtra, Gujarat, Karnataka, and Delhi are showing very good penetration levels of Electric Vehicles, but the important point here is that Gabriel share in this is 60% compared to our normal ICE engine share which is more towards 30% little less than 30%. Here we have increased our market share to 60%. In the last call, if you recollect, we have shown this figure to be about 51% so that continues and our growth in EV while the base is still small but the growth in EV two-wheeler segment in

FY2021-2022 compared to 2020-2021 has been 85% and in fact this figure keeps strengthening month on month.

The last box we have shown the models you can see all those models where we are there so these are the top selling models today so we are there on five of the six top selling models, Okinawa Praise, Ampere, Ola, Ather, and TVS iQube, so everywhere Gabriel is single source and the list of customers is displayed on top.

Coming to passenger cars, here again we have had marginal improvement in market share, the good news is that we are on several of these new SUVs that are in the phase of launching but they have already been displayed. As you know the Maruti Suzuki Grand Vitara, the new Brezza and the Toyota Highrider all of these are with Gabriel shocks, and they are completely feature loaded so we expect them to do very well in the market place. Pricing is yet to be announced but we are sure that should also hopefully be good so our share in SUVs will in fact further improve and as I had mentioned earlier now SUVs sell more than the passenger car Sedans and hatchbacks so in fact India is moving to become our SUV market and our presence there is quite good.

We are there as I said on the Suzuki three platforms and one more new Alto is going to get launched shortly. We are also on that. We are right now in the midst of just scaling up production for that as well. We are also on Stellantis, CC21. We have also been awarded the ECC container which is the electric vehicle on the same platform so that will also hopefully come through in this financial year and we have also got the Volkswagen MKV 2.0 which is seeing the vehicles today, the Volkswagen Virtus, the Skoda Kushaq and Volkswagen Tigun and of course the Skoda Slavia so these are the four platforms so we have started production on couple of them and we will shortly be getting on the SUV as well so this is the story in passenger cars.

Coming to commercial vehicles, which is in slide 18. Here we have 89% market share. In fact almost very, very nominal position and due to the increased spending in infrastructure by the government and also increased in buying of buses because the movement has started in terms of people going back to public transport the schools etc., so we are also seeing a good improvement there, so here we have a very good market share.

Aftermarket I did mention already we had an excellent sale of Rs.331 Crores, the highest ever sales that we had in year 2021-2022 and if you see the first quarter we had almost Rs.100 Crores sales in one quarter itself so again this has been a good story to share in terms of our penetration in terms of improving our brand Gabriel right at the tier two, tier three cities as well and also continuously increasing new product lines even beyond suspension so that is also helping us in gaining more traction and becoming a one stop shop for our customers in terms of distributors and dealers. Exports yes I did mention I will come to this slide. This was doing very well. Last year we crossed Rs.100 Crores sales but this year unfortunately we had a setback because our sale was to Volkswagen of Russia, and we all know the conflict that is happening in that geography and Volkswagen is actually shutting down that plant. So, we will have to see on that particular aspect. They had indicated they will restart in Q3 of this financial year but that might get deferred a bit more and we do not know to be honest, we do not what is the future. We are discussing with Volkswagen clarity is yet to emerge so that has been little bit of setback but our orders to DAF of Netherlands, they are very strong. As I said we got validated on DAF of Brazil as well so that continues to grow so we will have to be realistic work on how to make up this Volkswagen Russia export.

Rishi Luharuka: This being a quarter the number on the balance sheet, are for the previous full year. In terms of cash flow for this quarter again it is increase in volumes. We have had an increase in the working capital, but we continue to maintain 17 days of net working capital as against 19 of the previous year end.

Manoj Kolhatkar: If you see the map, the last 7 years in terms of how the market has moved and how has Gabriel moved in terms of growth we have mapped it down. This is on slide 23 on segment two wheelers, three wheelers, pascars, and commercial vehicles while the market has been either negative or marginal growth over this entire block of 7 years which also includes the full COVID growth Gabriel has grown by roughly an average of 7 to 7.5% in each segment which clearly shows that we are improving our market share. This has been mainly enabled by the strong R&D and customer focus and our focus towards customer satisfaction.

Our core ranking, we have mentioned on this cost reduction drive that we have. We have continued with the term because it has caught on with every employee, so we are continuing that focus on the renewed fashion and all the teams are really working hard on each and every aspect of this trying to reduce cost and eliminate waste to the best possible extent which has yielded us a little bit of profitability as well. Our vision we had defined as being amongst the top five manufacturers of shock absorbers in the world based on domestic dominance and technology and of course exports and M&As, so we continue to work on each prong that is mentioned here. That has come to the end of presentation.

That is pretty much the end of the presentation that I had to share. We also have, formally be inaugurating it. We are already started working on this picture that you see on slide number 38 of presentation pack. Slide number 38 shows a picture of our new tech centre in Chakan, which has capabilities and also we have made a small noise track for this particular tech center so this has come up very well and I am sure this will go very well with our customers and also helping us develop more and more reliable and robust and high technology products to offer to them and that is we can end and of course we continued to win several awards.

We got an award from Ashok Leyland just couple of weeks back. We already had won an award from Tata Motors, Suzuki, and from Honda Motorcycles so that also continues to go. That is pretty much end of the presentation that I had to share. I think we will open for parallelly questions from you, any suggestions from you and look forward to hearing from all of you. Thank you.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Viraj from SIMPL. Please go ahead

Viraj: Thank you for the opportunity and congratulations for good set of numbers in such a challenging environment. I just have three or four broader questions. First is on the growth part so if you look at sequentially and even year on year basis, the growth has been quite strong and if you want us to kind of better understand the volume versus price mix in this, what would that be and remainder question is on the aftermarket growth, we have seen the highest ever growth ever quarterly sales and aftermarket and if you look at the mix in terms of say the four ride controlled products vis-à-vis the other products, the mix has largely been same so just trying to understand what is driving growth if it is distribution, how much of lever further we have in terms of the potential definition where we would like to be so any prospective on that.

Manoj Kolhatkar: Thanks, Viraj. So in terms of growth you have rightly pointed out yes you to have factor to the commodity price revision that happened, but even if you factor that there is still a recent amount of growth, if I knock off the commodity price it can reduce about 10% but our growth has been far and excess of that so obviously there is a clear improvement in market share which we shared already. You could see each and every segment, passenger car has moved to a better market share, our two wheelers has gone to 30%, EV has grown from 50% to 60% and commercial vehicle 89% so that is more in line with industry so growth has been quite good. Aftermarket also the growth has been better than the industry so I would say on the whole except exports there has been good growth in each of these segments.

Viraj: Sir on the aftermarket business can you just provide some colour on the elements which are driving the growth.

Manoj Kolhatkar: Basically, our penetration in terms of tier two, tier three cities that has held well and also the new products that we had launched, we had a little issue with the tires so we have re-launched that with better quality, so that has taken off well. Better aesthetic quality and even performance so that has also helped, the brake pads that we have launched that is gaining traction so overall I think it is a mix of aggressive push, better branding, better reach and new product basket so all this is helping the aftermarket gain. We have also taken a price increase in the market obviously where we cannot take exactly in line with the commodity. You have to do in creeping fashion which we have been doing continuously and it is being well received by the market.

Viraj: Second question was largely on the gross margin and the operating margin. So if you look at our next by and large you have seen a very strong increase in share of aftermarket, CV, and even passenger vehicle and these are typically the categories which come highest in packing order for margin but still our overall gross margin is still around 23.5% which is lower end of the historical band, so is bulk of the RM cost now in the book and how should we understand the growth moving in the gross margin and operating margin in the next few quarters.

Manoj Kolhatkar: Of course, there has been a commodity recovery. The softening of the quarter will happen only from the next quarter and moreover it has to sustain. If you see April, May, June softening particularly in steel but that has to sustain for us to really start getting better margin so when the market is continuously increasing, we did share with you that there is clear arithmetic impact in terms of margins going down because your price goes up only with the customer as regard to the raw material component, the rest of the part the customer does not compensate so once you have continuously escalating kind of scenario in commodity, the margins do take a beating which is what we saw happen over the entire last year. Now we are hoping if this softening sustains, we should see the reversal in trend.

Viraj: At a threshold level are we seeing good amount of efforts which we have put in last couple of years. We have seen good amount of benefit coming out of that, so do we see any furthermore improvement from that or that will only be incremented?

Manoj Kolhatkar: We still see further improvements in that. Our efforts in that as we call it value check in and value analysis and waste elimination effort to our core 90 that continues. So, we will continuously look at improving our margins. We have just crossed 7%. You know our target has always been being in the double digit of EBITDA.

We had come to close to that but then yes a down market in 2019 and 2020 and then followed by COVID has taken all the steam of that. I mean 10% looks difficult but we still aim to get as close as possible.

Viraj: Okay last question I will come back in queue. Any update of the new product which we were doing the feasibility and we were looking to design by this quarter?

Manoj Kolhatkar: Which new product?

Viraj: So we applied with the PLI?

Manoj Kolhatkar: So we are still evaluating. The report is ready, so we are trying to get more details and flash it even more. We have got the entire market mapped, the kind of power that we are looking at in great deal, segment wise that has been done so it is still work in progress.

Viraj: Okay I will come back in queue. Thank you and good luck.

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

Shashank Kanodia: Hi good morning, Sir. Sir just wanted to check 7.1% of margin should be a base margin for us right going forward so we are building upon this even the fact that RM cost has softened.

Manoj Kolhatkar: If the RM trend continues, the softening then we will definitely see a better margin than this however having said there is immense pressure from the OEMs as well to keep reducing cost and that we are seeing little more high trend push from the OEMs so we will have to find a way to indicate that but if the RM trends continue as I said surely this should be the base.

Shashank Kanodia: Secondly Sir in terms of new product launches so are we present with M&M types of kind of SUV 700 and Scorpio in which was launched recently.

Manoj Kolhatkar: So we are there with SUV 700, we are there in new Thar both these models and Scorpio historically has been with the competition. Even the earlier Scorpio was with them so that is not with us. Having said Thar is a new addition; Thar and XUV700 both are doing extremely well, and both are with Gabriel.

Shashank Kanodia: Okay and we are 100% suppliers?

Manoj Kolhatkar: 100%.

Shashank Kanodia: Sir lastly did we had any board deliberations upon the professional fee that we paid to the parent so any thoughts on that?

Manoj Kolhatkar: I could not get that. Can you repeat?

Shashank Kanodia: Sir we paid 2% of our revenue Sir as professional fee to the parent so was there any deliberations on this on the board meeting any outcome?

Manoj Kolhatkar: No we did not have any deliberations on that because we have done it. It is a completely arms length pricing that we do. This kind of services we take from the parent are quite varied and right from human resource to finance to taxation to of course the brand not to forget that. Customer relationships we do leverage so we have not taken that up in our deliberations.

Rishi Luharuka: As what Mr. Kolhatkar has mentioned, there are a host of services which we are receiving from Anand Corporate, which if we were to sort of close that from a vendors would be equivalent to what we are actually paying. Yes, there are challenges with regards to the models and the topline going up for the perspective which was shared in the previous meeting even interestingly we are looking at it, but just to share in terms of what services we are sourcing from Anand Corporate of course it is brand, first and foremost. Second is the human resource development part. We also had Anand University which is basically responsible for training and development of all employees. We have the corporate business development function. We have the aftermarket logistics function where all the CMSA and all the arising facilities are sourced from them. We give a lot of support in terms of legal and taxation from them. Internal auditors get completely raised the function by Anand Corporate, Insurance because of the leveraging of various companies that are coming together and getting better rates. That is handled out of Anand Corporate. Corporate communication as well as CSR activities, we have handled out of corporate, yes we will be taking your point but with regards to this, I just wanted to mention what are we sourcing from.

Shashank Kanodia: Sure, just one last thing so what kind of production ramp up are we seeing with OLA Electric so any thoughts on that? Are we getting 10,000 per month mark anytime soon?

Manoj Kolhatkar: Well, their volumes are currently down. A host of factors like including their components availability so that we have seen a little slowdown in the ramp up. But we are sure it is a great product and recently I drove it myself. Really wonderful product. I am sure it will get back to those volumes which they have always been telling.

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

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

Amar Kant Gaur: Thanks for taking my question, Sir. I have a couple of slightly longer-term questions so what I would like to understand first of all is in terms of our current margins what kind of RM impact is embedded there and which overtime if it gets corrected what kind of benefit can we see on our margins from the RMs itself?

Manoj Kolhatkar: You mean if we get a complete back-to-back.

Amar Kant Gaur: Yes?

Rishi Luharuka: If we look at the whole of the last year and this quarter as well these roughly give and take the commodity impact because of timing differences and others where sort of complete back to back is not there. Say for example in aftermarket as well as some of the proprietary items where we do not want to disclose the chemistry and thus cannot be index that impact will be roughly in the range of 0.8%. However, you must also remember that close to 2% to 2.5% is the denominator impact that has come by virtue of pure math.

Amar Kant Gaur: Okay so tell me if my understanding is correct so in case these things get normalized, we would be closer to may be 9% plus kind of margins in the current quarter had these not been there?

Rishi Luharuka: Assuming the whole commodity cycle reverses and goes back to where it began the answer will be yes.

Amar Kant Gaur: And would there be any other drivers to these margins going up to let us say our target levels of double digits is there anything else that we are working in?

Manoj Kolhatkar: Yes, certain things are on that. It is a product mix also. The margin is a big factor of products mix so that is why we want to push more of aftermarket and exports? Certainly, these two will help us improve our margins intermittently. While aftermarket we are seeing that happen, exports I mentioned due to uncontrollable issues we have got behind a bit.

Amar Kant Gaur: So I will come back to exports later but within the current trends that you are also talked about and the industry is also seeing as we are getting more and more traction versus hatchbacks and definitely for those SUVs would the margins be slightly better than hatchbacks or sedans for us?

Manoj Kolhatkar: There is much difference in terms of margins but however we can introduce new technology, which is what we did in the SUV 7, the Mahindra model. We introduced a new technology called FSD frequency selective damping. There we can improve our margins a little bit so if we are able to bring that some additional technology that is what we are trying to do. That is why this new tech centre we have hired an expat as our chief technology officer so with that we are hoping that, but it will be more over a longer term.

Amar Kant Gaur: Okay Sir and on the technology side also with Scorpio and Mahindra talked about something called as a penta-link technology. What are your views on that and is that something that we can also try and develop and may be introduce in some of the other products that might be in the market?

Manoj Kolhatkar: So that is the overall suspension in geometry. That is not entirely with only the shock absorbers. That is a more of product bit of the vehicle manufacturer. In that our play is only suspension so in fact what we have offered in SUV 700 as the technology I would say that it itself is quite good.

Amar Kant Gaur: Okay and my second question is on the core 90 program that you have? Could you quantify what kind of benefits have been achieved so far from it and what kind of benefits are we looking to get in the future if you can quantify in some way like fixed cost reduction or something else?

Manoj Kolhatkar: Rishi you want to take that.

Rishi Luharuka: The overall benefit would be in the range of 1% odd period till date that we would have received under the various initiatives which we have taken. So there are some challenges also that we have faced during the course of last six quarters or eight quarters actually so net of net we have clocked that kind of 1%.

Amar Kant Gaur: Alright and Sir a couple of clarifications that 60% share of business that you talked about was for the whole of the 50,000 odd numbers that we are seeing for electric vehicles or was it for a more specific?

Manoj Kolhatkar: We are talking of the registered market of course.

Amar Kant Gaur: Yes the city speed or high speed models?

Manoj Kolhatkar: Yes high speed because the low speed it is still a kit from China that people assemble here and we have no clue on the numbers so the industry speaks only of the registered.

Amar Kant Gaur: So that means we would be around 25,000 to 30,000 kind of vehicles we will have our products on in EVs?

Manoj Kolhatkar: Yes for sure like I mentioned out of the top six we are there on top five.

Amar Kant Gaur: Going forward?

Manoj Kolhatkar: Which is selling roughly 5000 to 6000 so 5 x 5, 25,000 to 50,000.

Amar Kant Gaur: Understood so basically with that new addition this would further go up may be north of 30,000 crores?

Manoj Kolhatkar: Yes absolutely.

Amar Kant Gaur: Sir are we doing anything on the low-speed side of this electric two wheelers or is that is something we are not interested?

Manoj Kolhatkar: We are not doing and as I said they are buying from the kits from China. It is impossible and my view it means that. Once the restrictions all this quality issues or recall policies come in place it will become difficult for them to continue with those.

Amar Kant Gaur: Alright and Sir finally on the export side you said that it was to Volkswagen in Russia and what percent of our exports would have exposure to Russia or would it be 100% goes to Russia only?

Manoj Kolhatkar: Not 100%. Per month we are selling about let us say or on the whole year basis it is about Rs.25 Crores to Rs.20 Crores.

Amar Kant Gaur: Okay out of Rs.100 Crores?

Manoj Kolhatkar: Out of Rs.100 Crores yes.

Amar Kant Gaur: Understood. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir congratulations on a good set of numbers so my question is when we supply shock absorbers to say electronic two wheelers was the price differential that we enjoy vis-à-vis say two-wheeler IC engine if you spell out in terms of say 1.2 times or 1.5 times or whatever is it?

Manoj Kolhatkar: I cannot spell out the figure but yes I can tell you that the margins are better.

Jayesh Gandhi: Are the margins are better than existing which we did in 2018 or something like that?

Manoj Kolhatkar: Yes they are better than that.

Jayesh Gandhi: While you were taking about your aspiration of being into top five shock absorbers in the world? Are you talking about yourself or the entire Gabriel? In fact, Gabriel is already on the top right?

Manoj Kolhatkar: I am talking only about Gabriel India so like you have rightly pointed out if I add all the Gabriel that are present in the world, we would be in the top five. But I am talking only of Gabriel India so here right now in the top 10 for sure. It is difficult because many are not published figures, but we should be around number eight around that figure.

Jayesh Gandhi: So what kind of sales would that be Sir if we are looking if we lost to top five say last fifth?

Manoj Kolhatkar: Well top five we will have got into a billion-dollar side.

Jayesh Gandhi: Which you are aspiring to do by 2025 according to your last call right?

Manoj Kolhatkar: Yes, just to clarify on that we had done that vision 25 before the COVID so obviously COVID has taken two years away from all of us but we have not changed the vision in terms of the aspiration because we felt let it still be aspirational so it may get.

Jayesh Gandhi: It may be delayed by couple of years?

Manoj Kolhatkar: Yes that is right because those COVID years as you know we are back to currently even this year in 2022-2023 we will not even reach 2018-2019 figures.

Jayesh Gandhi: One more question on two wheeler sales so in 2016 or 2017 if I remember the numbers correct we had hit a 20 million mark on total sales on two wheelers and post that I do not think we have touched that mark do you think the industry is matured even if we go to say EV two wheelers there will be a cannibalization and we will not be hitting that 20 million market?

Manoj Kolhatkar: Yes it looks difficult. We had impact on higher than 20 million as an industry but yes going back to back is looking difficult even if we add by EV two wheeler it is still is not coming close to that. We are looking at may be 18 at best. It will take some more time and the issue has been the continuous increase that has happened in the basic price of the vehicle in ICE two wheelers of course and the COVID also has played a spoil sport in terms of the psychology of the rural buyer. I think it will take a year or two. My view is that we can definitely cross 20 billion as a country may be in two years time.

Jayesh Gandhi: So our strategy would be focusing more on PVs or two wheelers or how we are just looking?

Manoj Kolhatkar: EV two wheelers of course is the focus and that is helping us. The base system is small but it is obvious people are going to convert to EVs I think.

Jayesh Gandhi: Sorry Sir my question was our strategy is more looking towards passenger vehicles now or it is still towards two wheelers EV?

Manoj Kolhatkar: I do not know our focus again our focus is on all segments to be very honest. That is why we did this segmentation of the business. So we have a two wheeler BU and we have a commercial vehicle and railways BU so the focus remains on each segment. Having said that the passenger car is something that we can see a much better upside and we want to do more passenger cars. Coming to two wheelers there are some let us say market dynamics by which we cannot increase much in IC engine so we have taken the focus in EV two wheelers, and it is us bearing us fruit so these will be the key strategies and that is what we want to do and that is what as I said is the exports which is a more longer term strategy.

Jayesh Gandhi: One last question Sir. We are sitting on say Rs.250 Crores plus of cash other than the routine capex or the capex which we have spelt out? Are we thinking of doing something else?

Manoj Kolhatkar: Yes we are actively scanning for opportunities of acquisitions. We did actually even do a visit to a couple of them but we did not find them to our standards in terms of all the packages. but search continues certainly we would look at in our inorganic growth for sure and as you saw in the vision around the key fundamental is by which we can achieve that is through an acquisition.

Jayesh Gandhi: In India we would be number one?

Manoj Kolhatkar: Overall yes. Overall, definitely number one.

Jayesh Gandhi: Okay that is all from my side Sir. Best of luck for the future.

Manoj Kolhatkar: Thank you. Thanks for this opportunity and I just take this opportunity to wish all of you a very, very happy safe and joyful festive season so it is all from me and thanks for your support. Stay safe and stay. I will sign off now. Rishi you can take it forward.

Moderator: Thank you. We will take our next question from the line of Pankaj from Affluent Assets. Please go ahead.

Pankaj: Thanks for taking my question. Sir most of my questions have been answered. Just wanted to understand what is the scenario as far as CVs and railways are concerned?

Rishi Luharuka : Pankaj while we have shared this with you many times with railways what happens are essentially is a tender based business and it is getting quite competitive there. In order to increase the focus as well as the bandwidth there we have actually sort of tied up with some experts from the industry. We are seeing some fruits of that now and with regards to the current year budget we are on track. As far as commercial vehicle is concerned again we are pretty much in line with the industry given that we hold such a large part of the market share and as well as the export fees stood up that is also running on the budget.

Pankaj: So going forward as these segments are expected to do well so do we expect to gain market share or may be increase the value per kit value in the vehicle?

Rishi Luharuka: So again in the commercial vehicle it is a little so for a typical way most of these commercial vehicles the moment it is bought they tend to remove these shock absorbers and put in an additional leaf in order to be able to load the vehicle with a higher capacity so in terms of increasing the content I do not see that much happening. Yes, if see the overall volume goes up we are deeply entrenched in it and corresponding to that our volumes will as well goes up. In terms of the pipeline whatever is being floated in the last quarter but for the previous year whatever RFQs have come we have been able to win that.

Pankaj: Sir my last question do you have any plan to enter into any product which is exclusively for leaves other than shock absorbers?

Rishi Luharuka: Exclusively for EVs?

Pankaj: EVs other than shock absorbers.

Rishi Luharuka: In passenger car you said right.

Pankaj: Sorry.

Rishi Luharuka: Other than passenger car you want or other than electric vehicle.

Pankaj: Other than shock absorbers in electric vehicle either two-wheeler or four wheelers?

Rishi Luharuka: In terms of the overall basket of Anand corporate we are managing with one product of shock absorbers having said that we won the PLI scheme. In the PLI scheme we are progressively looking at sensor as a product. MD just mentioned in terms of where we are on that, so if we are able to go ahead with that then the next product which will get added to the including electric vehicles on two-wheeler as well as passenger side would be sensors.

Pankaj: Sir what is the tentative timeline for the same?

Rishi Luharuka: Well right now we have done some market mapping. We have done the understanding of the product what has been there, what is currently the volumes being clogged as well as what is the supply chain and what typically we OEMs are looking because there are various categories of sensors which are there in the market as well as which are gaining more and more sort of content per vehicle. The next phase of the study is to start looking at the sort of filtering down to the product that we would like to venture and look at in terms of technology, in terms of capacity, in terms of other financial parameters so give and take I think a quarter or a little more is what we would take to kind of arrive at a conclusion.

Pankaj: Sir just wanted to understand are we signing with anybody else for the product or we are going on our own as the sensors are already coming, competition is already present and forayed into this market long back?

Rishi Luharuka: So your question is valid. We would be tying up with somebody for technology to begin R&D we do not have that technology available, and that evaluation also is a part of the project.

Pankaj: Thank you. Thanks a lot.

Moderator: Thank you. We will take our question from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: Sir firstly wanted to understand on the passenger vehicle side you mentioned that we are adding new models with Maruti? Also, on Mahindra side also we have orders from Stellantis and Volkswagen Group. so Sir if you can share some quantitative data what kind of annual revenue can these new orders bring us or most of these are replacement orders just some color on what is the annual revenue that we can generate from new orders?

Rishi Luharuka: I will give you a broad perspective why we are not sort of supposed to share volumes of these new programs based on the contract that we sign. Give and take currently we are at 22% of the total topline. We aim and target to reach in the range of 25%. With regards to replacement Maruti some of the programs that is going to get launched in this year and the Q1 of next year they are replacement but for Volkswagen, Stellantis as well as for Mahindra they would be new program.

Chetan Gindodia: Okay and secondly wanted to understand on EV market share so currently we are market heading two wheeler EV as you said in 60% so given that we understand a lot of established players did not participate in the market earlier and now going ahead we will be doing so do we expect some moderation in our market share going ahead or do you feel even our strong customer relationships and our product technicality we will be able to maintain our market share?

Rishi Luharuka: The endeavor is to maintain if not improve. Yes there will be competition but we already have the first mover advantage and now with Hero Electric coming in as well it is actually going to improve our market share as far as EV is concerned.

Chetan Gindodia: Lastly wanted to understand you said we are also looking for acquisition, so what is our intention behind the acquisition? Is it product diversification or are we looking at incremental higher market share in the same shock absorber product and what is our ROI and will be open to with even increased dilutive acquisitions so some guidelines on acquisition side if you can share?

Rishi Luharuka: So we have set of a range of what we call as a corner stone or decision making factors when we look at any target. The broad one being that it has to be the mobility space. Can it be a different product? The answer is yes. Can it be suspension and allied products the answer again is yes? We are open to that. It can also include backward integration. One of the targets that we evaluated and also had a visit last time was towards that which unfortunately did not fructify so we are open to that upward obviously cannot happen because we have OE so downward is quite possible. Domestic as well as international is an option that is available. If you have any specific with regards to the financial numbers obviously it has to make sense when we are going to buy we do not want to be a financial investor. We want to be a strategic partner in that acquisition we would be running so a lot of synergic value needs to be present when we are looking at such acquisitions otherwise for the purpose of buying and product diversification if we are not able to add value that currently is of less interest.

Chetan Gindodia: Got it Sir. Thanks a lot for the insight.

Moderator: Thank you. Our next question is from the line of Sonaal Sharma HDFC Securities. Please go ahead.

Sonaal Sharma: Good afternoon. Sir I just want to understand that what is your expectation for FY2023 volumes for electric two wheeler because last time I think you have guided for 600,000 units post the fire incident so how are you thinking that for full year, how it will pan out?

Rishi Luharuka: Well given that we have already have the capacity in place and for the hero electric we will be sort of adding something more to that. In terms of volume it is a little difficult right now to gauge given some recent developments but the previous number that you mentioned we continue to believe that we will be able to clock that.

Sonaal Sharma: Just adding to the previous part of the participants question regarding to the first mover advantage that you have in the shock absorbers so other than this, is there any technological advantage or any sort of patent or any sort of moat that you have, that none of your competition can copy?

Rishi Luharuka: No competition copy, no that advantage is not there, but in terms of technology is specifically for OLA we have developed an inverted front-fork as well as a shock observer is a monotic shock absorber so that is the unique proportion that is there with OLA. These products and programs have a long sort of validation cycle so given the fact that we have partnered with them along with their own journey. The possibility of getting replaced with some other organization apart from Gabriel is low, obviously these are all driven by cost and performance.

Sunil Sharma: Thank you. Those were my questions.

Moderator: Thank you. Our next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Sir my questions have been answered. Sir just a suggestion on the service charge which you talked about the parent charges and the explanation was quite comprehensive, just a suggestion, instead of charging a percentage of sales, why not charge the percentage of profit that is what the approach. A lot of other MNCs and other domestic companies in the similar space they have. So kind of more aligned to the other minority investors, so just a suggestion. Thank you.

Rishi Luharuka: Suggestion noted. We also need to evaluate when we are thinking on these lines whether this tantamount should be suitable or not but nevertheless suggestion was noted last time also. We will think.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand over the floor back to Mr. Rishi Luharuka for closing comments. Over to you Sir!

Rishi Luharuka: I take this opportunity to thank everybody for joining the call. I hope we have been able to address all your queries. For any further information kindly get in touch with us or SGA our investor relation advisors. Thank you. Stay safe and stay healthy.

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