"Gabriel India Limited
Q2 FY '23 Earnings Conference Call"
November 11, 2022

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Moderator: Ladies and gentlemen, good day, and welcome to Gabriel India Limited's Q2 FY '23 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 this conference call, please signal an operator by press star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Manoj Kolhatkar, Managing Director at Gabriel India Limited. Thank you, and over to you Mr. Kolhatkar.

Manoj Kolhatkar: Thank you. Good morning all, and a warm welcome to this earnings call of Q2 and H1. All of you had a very good, safe and very happy and joyous Diwali. We had both the festivals Dussehra and Diwali in the month of October. I must say a bonus month as far as festivities are concerned. Good to see all of you back. Along with me is Rishi Luharuka, our CFO; and Nilesh Jain, our Company Secretary; and our IR advisers, SGA on the call. We have uploaded our results and the presentation for the quarter ended 30th September. I hope you have been able to go through the same.

So I'll, of course, take you through the presentation on some of the slides as we go around. But before that, I'll just give a brief industry overview. So top line, of course, we are very happy to report that our growth momentum has been very good, continued in the second quarter, and we had the highest ever sales in a quarter ever.

So I mean that's something really significant. If we see, we have been able to accommodate a lot of new product launches during this period and relatively flawlessly, so we are seeing an improvement as we go along product large after product launch in terms of our own maturity of launching new products that is helping us the time-to-market part. In the EV market, of course I'll share that as well, it continues to be a good success story. So in fact, all of our business verticals have exceeded our expectations, resulting in increased volumes. Capacity utilization is in the range of 65% to 70%. In fact, the passenger car, as we speak, is going up even higher. I'll come to that when we probably go through the questions.

So coming to the auto industry, yes, the challenges continue. Thankfully, and hopefully the COVID pandemic is behind now. It's already a thing being declared as an endemic. So that challenge is relatively, I must say, taken care of. But the semiconductor and supply shortages still continue in the industry. And as we all know, it will still take time that is what industry experts say. Commodity prices, the inflation was really severe over the last two years. So that clearly has started easing off from the last quarter onwards. And we are seeing prices come off all those highs and coming back to almost pre-covid levels. We talk about steel, aluminum, copper every commodity, we are seeing a reduction that is happening. Of course, this is, as you know, in our case, it's a back-to-back arrangement with the customers. And you all, of course, it must have read the recent article on the huge backlog of or waiting list of cars. In fact, if you go to buy any car now, the standard rating it is 1.5 to 2 months, some models going over a year as well for waiting, which shows a very clear robust pipeline for passenger cars particularly.

And of course, yes, there is a bit of cautious optimism there in the industry as well. I've been speaking to some of the OEMs. They say that once this demand is over, again, this demand, you have to treat it with a little bit of pinch of salt, because there is some double booking which happens in these times. But once this demand is over, you know, there might be a, I am not telling a slowdown, but definitely we will not see the growth rate that we have witnessed in this first half.

As regards the passenger vehicle segment, we had a record month in September, record quarter as well. Clearly, you know, the volumes for passenger cars are going to cross 4 million figure for the first time as regards the annual numbers are concerned. There is a very strong response, particularly for the SUV vehicles. As you know, SUV's are over 50% of the sales. So that is a clear shift that has happened in the industry. Infrastructure and real estate are expected to expand as are also mining, e-commerce, transportation and logistics, which all are very important for economy and for mobility, which is where, you know, we come into play.

In the coming months, we will be shaped by the adequate rainfall which has thankfully again been very good for the country. The first six months of the fiscal year, the CV industry grew very strongly at 54%. It has not yet reached the peak in terms of volumes, what we witnessed in 2018-19, which was over a million. But if you see in terms of tonnage, it surely has crossed that figure. As you know, the tonnage norms got redefined based on the axle load norms. So if you see the tonnage kilometers, I think we have exceeded the earlier figure as far as the industry is concerned.

Another growth area has been the three-wheeler segment, which was very dominant, particularly because of the most impacted segment during COVID, because people were not preferring this mode of transport. The schools were shut, colleges were shut. But this has shown a huge increase in sale in April to September, the first half of the year. Within this, of course, the movement towards EV is even stronger, as you all know, which again I'll share during the slide.

Again, talking about EV, the demand for two-wheelers is really very high. In the month of October, though it's not in H1, but you all know in the month of October, the industry, I mean the two-wheeler industry EV sold over 74,000 vehicles. So that's really a huge jump from the earlier 50k peaks that were, which the industry was hitting in August, September. October has been a bumper month with over 70,000 two-wheelers in terms of EVs.

So here again, as I mentioned, Gabriel has been quite successful in you know, getting all the orders from the key two-wheeler makers, so that has helped us gain market share in the overall two-wheeler segment as well. Coming to the numbers, now I'll take you through the presentation. So I'll just read the slide.

If you go to slide number 5, which is the financial highlights Q2 FY23, as you can see, we, like I already mentioned, we did a revenue of INR 800-plus crores. The first quarter, we did INR 800+ crores which is almost 36% jump year-on-year. And even if you see sequentially, INR 802 crores would be about 10% - 11% compared to the previous quarter, which was also a record quarter, which was INR 720 crores, which you can see below. In terms of EBITDA, we did INR 59 crores, which is 7.4%. So marginal improvement in EBITDA from, as you can see below Q4, the last couple of quarters from 5.5% to 7.1% to 7.4%. So, our efforts on cost reductions and CORE 90 which I already mentioned earlier on several calls, those are working. And similarly, in PBT, you see pretty much the same improvement of 36% - 37% Y-o-Y.

Coming to Slide number 7 is the financial highlights for the first half, H1. So we crossed, INR 1,500 crores so INR 1524 crores in sales. I mean needless to say, highest ever. EBITDA of almost INR 110 crores, PBT of INR 94 crores. The balance sheet position also is good net cash of INR 251 crores and we had in H1, we had cash flow from operations of almost INR 25 crores, which was a little less than the last year's corresponding period. But in the quarter, if you see, we had a much better cash flow compared to the last quarter. We incurred almost INR 47 crores of capex in this year, mainly on R&D and capacity improvements and quality and safety improvements that we have done all across our plants.

Slide number 8, is the very quick P&L. I'll not go through the detailed figures because I already shared that.

We'll move to Slide 9, which shows the trend. As you can see, FY '23 half year sale is INR 1,523 crores, which is more than the full year sale of FY '17. So good growth, good gain in market share in all segments that Gabriel has achieved has led to this good improvement in the sales figures. ROCE for the quarter, again has been really good, almost 34%. So again based on our good efforts by all the teams and Rishi who is on the call, I think this we have achieved quite well.

On Slide 12 are the key ratios, I mean, again, I'll not go through each of the ratios, but we also know that we declared the interim dividend of INR 90 paisa yesterday in our board meeting. So this is again, something which is definitely in line with what we have been planning to do.

Coming to Slide number 14, which is the segment performance. 2-wheelers and 3-wheelers, this is including aftermarket. So, the market share here, of course, is the OEM market share. As you can see, while 65% of our total revenue comes from two-wheelers. The market share is 32%. This is including EV. Just to share the same slide last year, which was the half yearly call, which we had in November of 2021, this figure of market share was 25%. So, you can see a very healthy improvement in market share mainly on the back of the EV dominant position. We continue to get good models, recent launches being the TVS Raider, which is very successful, Jupiter 125, Mahindra, all the platforms of Yezdi and Java and Bajaj these are 3-wheeler models. And EV - Ola, Ampere, Ather, Okinawa, we also got an order from Hero Electric, which is the only one which we didn't have. We also got that order and SOP will begin in the next quarter.

Coming to Slide 15, which is an EV, share of business in EV is 66%. So the industry figure was 32% as you saw on the previous slide. But the EV share of business is 66% and you can see the models. So Okinawa, Ampere Ola, Ather, TVS, ICUBE. We are there in all these industry leaders of except Hero. So that all does well for us, for sure.

Coming to passenger car. Again, this has been a good performance. The market share is 23%. The same figure exactly one year back was 21%. So, we again, marginally improved mainly on our increased share of business from Maruti Suzuki and the Toyota platform. So Maruti Suzuki, we have won the what we've written here is, say, YXA, YFG, which is basically the Grand Vitara, Brezza and the Toyota Hyryder. So these are the two key volumes and in pipeline is YWD and Y0M which is the new Alto is already been introduced. YWD is the Jimny which is shortly going to be launched.

We also have started the Stellantis. CC21, eCC21 which has been received quite well at the market. The volumes are small. But it's a good car I must say, quite a spacious rooming and a good value for money for the price point.

So still on Slide 16, which is the passenger car. So yes, we also have already got the business from Volkswagen and Skoda for all the new vehicles that you see currently, right, from Slavia, Virtus, Kushaq and Taigun. So that is entirely with Gabriel. So this will of course, keep adding to, as a volume ramp of the passenger car sales as well.

Going to Slide 17. Yes, slide 17 is commercial vehicles. So here we have the dominant market share, almost 90% all the new platforms. I mean, almost all OEMs are with us. We continue to work on some new technologies here as well so that we are able to answer all the future requirements very well. Our export program in DAF is also going quite well. We are already exporting to Netherlands and Brazil, and we have won some more programs from them as well. And in fact, recently, we had the PACCAR DAF vendor meet, the annual vendor meet where we were asked to present to the entire fraternity on the success story of Gabriel. So we already have won the award from them as the best new supplier and also top quality supplier, which they have an award called 10 PPM, so we have won that as well. So this augurs well for our exports and how – I mean we surely want to leverage this in terms of a global journey in CV particularly.

The next slide, slide 18 is on railways, where you can see a lot of new pictures here, new models for us. So we have got a first breakthrough for the Vande Bharat express, this we will be supplying to Medha who has got the order for the rakes from the government. We're also talking to some other rake manufacturers. The discussions are on and another important thing is we have been developing and working on the locomotive dampers, which Gabriel was never supplying. So we have again got the first development proto order, and we have actually supplied our parts for try-outs to the locomotive work. So this will also increase our presence in the railways. Having said that, the volumes are still small for railways, still not recovered fully to pre-COVID volumes. So we'll have to wait and watch this particular segment. But yes, our product portfolio has definitely increased or the content for railway, which I call it has definitely increased as regard to railways.

Coming to next slide, which is Slide 19, aftermarket, again very strong growth, 24% growth on H1. And in fact, we did almost INR 100 crore figure in a quarter, in this last quarter for sales of our aftermarket. So, a lot of new product launches that has been and we are trying to reduce the time to market we are increasing our traded products or the branded products that we have. Tyres, while we had launched it earlier, we had some challenges. So we are now renewing the push on tyres and we surely expect this to increase quite well going forward. The initial response has been good with the new launches that we are made in tyres, particularly.

Slide 20 is the exports. Yes as you can see, this has been while the story was good, and we are on the right track for the entire last year I would say post-COVID. But then due to the Ukraine conflict that is going on, Volkswagen has almost closed down the operations there, so which has a significant impact on us because we were supplying on a single source basis to Volkswagen Russia for the rear dampers. That decision is yet to be taken, what we hear is they are likely to shift this production to a different country, but till that time this volume has gone out from our figures. But despite that, you can see from Q4, Q1, where we were doing INR 21 – 22 crores of quarterly sales, we have still improved it in Q2 to INR 25 crores. This mean largely on being increased order from DAF of Netherlands.

Slide 21 is the balance sheet, I have already shared the broad number which is INR 251 crores of cash at the end of September and capex of INR 46 crores that we have done. We have also lined up some new capex for increasing capacity, this is at :

- Hosur, where we are doing a backward integration, where we reduce dependency on our imports from China, which has been a continuous initiative for us;
- Chakan, for capacity expansion because the Toyota Hyryder and Vitara Brezza both are being suffice from Chakan and the Volkswagen as well, because there is a good increase in demand at Chakan;
- Dewas, there is an improvement in the paint time which was very old having quality and safety issues. This was a planned decision. So, this is on stream now. New high tech paint line with much better in efficiency and quality.
- Khandsa, expansion due to really good volumes of Maruti Suzuki in addition to our own increase in the share of business with regard to Maruti. This we had started last year itself. We are actually coming close to the capacity expansion. We are also adding a building for which, of course, we have to take the relevant permission. So that is on stream.

Cash flows, again, I will not spend time on this. The CORE 90, which is Slide 23, I am mentioning this slide as this has definitely helped us and you are seeing the results. We continue to push. We are reviving it again. I mean it's always there, but we are again pushing so that we make the most of the improved commodity scenario and try to improve margins further.

Slide 24 is the vision and going forward is the corporate overview, where you can see on Slide 25, the picture of our new tech center in Chakan, absolutely state of the art tech center. So this will also help us in our journey in improving our positioning with customers.

So, this is in short, a quick run through our numbers based on the presentation that we have uploaded on the site. So now I'll end my presentation.

Just one more thing is the Sustainability Report. We have been as a Company and as a Group are very focused on sustainability right from inception to be honest. We have also won several awards in the industry within the auto component industry. I mean, yes, we are known to be doing very well on this front and the human resource practices as you all know. So, I'm very happy to share with you that we'll be launching our first ESG report very soon. In fact, in the next week, it is ready. I thought I'll take this opportunity to share with all of you that we'll be launching the first Sustainability Report for 21-22. And from next year, it will be along with the annual report itself. So. with that, I hand over back to the moderator and look forward to your questions and your input. Thank you.

Moderator: Our first question is from the line of Viraj from SiMPL.

Viraj: Thanks for the opportunity and congratulations on a good set of numbers in such a challenging environment. Just have a couple of questions. First is on the cost part. So we have been for last many years, undertaking Core 90 program. And I think the benefits of it, we are in clearly seeing in last few quarters. So just a kind of dwelling a little deeper into this because when you look at the opex cost and at the reported level, we have this management service fee, which I'm assuming is kind of a portion across the four quarters. So when we do kind of just kind of adjust for that, how would have our breakeven costs moved in the last few quarters as a benefit of Core 90. So any deeper can drill into? And incrementally, what kind of savings one can expect for this work?

Manoj Kolhatkar: Thanks, Viraj. So yes, I mean we have been working. We track the breakeven point and the breakeven point has been reducing. So the absolute breakout point of course has gone up due to higher volumes and higher costs. And there are some conscious investments that we have to do as we move to the next level of revenues. So I mean that definitely adds some costs. But however, the breakeven point in terms of percentage of sales has been continuously reducing. That's how you see the improvement in the margins that you have seen over the last couple of quarters. So that remains a focus area.

Now your second question of how much we can expect more from this cost reaction it's a game which is you have to play to survive in this industry. While as you know, the OEMs also not pass the entire price increase to the market. They have absorbed some of the commodity increases to the market. This is why you're seeing such a good demand as well. So they are absorbed in terms when the reduction scenario starts, while we have to pass them on, there is a continuous pressure from them to pass on reductions due to volume increases.

So that continuously goes on. So you have to what you call, keep running twice as hard to stay in the same place as we say. So that continues. But definitely, Core 90 has synthesized the entire team towards cost, that is a good part. So we are better prepared in case of when things do not go as planned.

Viraj: So these two follow-ups on this. One is, in the past, we should talk about the breakeven being a plus to 72%, 75% and I think on the last call got it down to below 60%, 67%, and this was a couple of quarters back. So if I have to just understand and current perspective, would it be still around those levels or you have managed to further bring it down to, say, probably somewhere between 60, 65 those kind of levels? That's a perspective if you can share, maybe not big tactics.

Manoj Kolhatkar: Yes, we've been able to down from 68% levels surely. So I mean, I would say a couple of percentage points here.

Viraj: And second part to the question was that as volumes for the improve, just trying to understand the cost base which you are looking at right now, and we have been kind of maintaining this kind of a cost base for quite some time. So what kind of scale this cost base was kind of can cater to, to look at next two, three years and beyond which we will have to kind of look at significantly increasing the investments or this is kind of give a perspective in terms of what kind of a cost base. Just what kind of a turnover this cost base can cater?

Manoj Kolhatkar: Yes. So in terms of, I would say, may be slightly rephrase your question, I would say that there will be some costs that we'll add to be ahead of the industry or at least even be in some cases in line with the industry as regards to technology. So we have already shared in terms of having a dedicated technology team. We've already added our CTO who's an expat. We are adding a couple of people more there, in fact, we'll add them in Europe and back end here in India as well.

So these will be some additional investment that we will do in terms of ensuring that technology is in place. For the future development of suspension. So these are costs that we'll have to add also, yes, we have to add some, while we've had a good land bank, more Greenfield locations now going forward because up to INR 3,000 crores, like I had mentioned in the earlier call also, some years back, possibly. We'll have to look at additional buildings even in new spaces. So we will be definitely adding a footprint in South to meet the increased volumes of 2-wheelers EV and also improve our backward integration.

One dedicated team initiative that we have taken is reduced dependence on imports, mainly as you know, from China mostly from an angle of one geopolitical uncertainty and second, also from being more flexible and third, being more cost competitive. So these are some investments that we'll have to do that will add to the cost, if that answers your question.

Viraj: So the reason why I was asking is in the last couple of years, you've kind of also made a significant investment. So we have opened a few more R&D centers. We have added some kind of bridge some roles at the senior level. So in that perspective, despite those investments, we have kind of been able to maintain the cost base quite well. And hence, I was kind of trying to understand in relation to the current cost base, what is the kind of scale one can kind of cater to without, before going into more level of investment. So that was the whole thought process.

Second question is in relation to Greenfield investments which we are looking to cater to. So when you're kind of looking at setting up a greenfield plant deal what is the kind of commitment or communications you are getting from your customers if you can just kind of give a more deeper dive which segments these are in, which we are seeing demand accruing and hence, we are kind of looking at Greenfield investments per-se. So that is second and third is any update you can give on the new venture or a new product, which we are evaluating. I think it is being more than a year or half. So any perspective you can give on those points?

Manoj Kolhatkar: Yes, first few questions. So on the Greenfield tell basically, I mean, the customer volumes, we can't double guess the customer. We are seeing clearly there has been a very solid growth quarter after quarter. So we'll have to be in line with that. We do our own factoring of volumes of each customers. But then we are still clearly seeing a growth. And as I said, part of it is customer driven, part of it is our own intent to integrate backwards. So I know reduce our cost base. So Greenfield is a mix of both. The other part was on the new product or I would take it on a larger level, which is inorganic growth. So yes, we are, as we speak, in discussions, I would say, a couple of projects. But obviously, I cannot share as of now because they are still in discussions.

Viraj: For new product I mean more from a sensor, I think that is one of the product we were evaluating.

Manoj Kolhatkar: Yes. So sensor is a product we are evaluating, again, we've done the complete detailed study. So we had even applied for the PLI benefits there. So that is one of the commodities. So the detailed scanning is done in terms of who are all the players who can give us technology. But yes, it is still in early stages.

Moderator: Our next question is from the line of Deep Shah from Yes Securities.

Deep Shah: So a couple of questions. First is on the market share gains, which you have mentioned in the PPT for 2-wheeler segment, it was at about 2%, if I'm not wrong sequentially to 32%. And similarly for CVs also, it is at about 4%. So first of all, what explains this and whether these are sustainable expansion?

Manoj Kolhatkar: Yes, Mr. Shah, I mean, the definitely sustainable because we have made some, as I said, the EV space is helping us, I mean their volumes are increasing as you see month-on-month and the growth is 300% in EVs and it only keep going up. So there, we will continue to increase our market share totally. Now having said that, yes, maintaining this kind of share of business in EV will not be easy. Certainly, there will be other people vying for the space as well as OEMs will be looking at alternatives. So that will go on as a process. But on a trend line, yes, this market share improvement can continue, even with legacy customers, let's say, TVS we have improved our market share, with HMSI it has improved marginally, but with the introduction of this new motorcycle, which they are planning, we have got 100% share of business. So it's a first motorcycle entry actually. So this will improve our share of business with HMSI further.

Similarly, if you see on PC side, Maruti Suzuki, we are gaining more and more models. Tata Motors, we have got one model, and we are just last week, we have we got a confirmation for another model. So where our presence was quite low. So that's why it's significant. So we are gaining there also, and I mentioned on Volkswagen we were under development. Now all the products are developed and cleared and we have already started production, but each every model will start getting productionized now. So with all this, clearly, I see the market share improvement will surely continue.

Deep Shah: And second question was on this backward integration capex, which you have been talking about. So if you can talk more on how things will shape up, let's say, on the cost savings front because we are talking about localizing the components from China. So on sustain basis, do you see this would add at least 40 to 50 basis points to our margin?

Rishi Luharuka: Yes, that's an interesting question. See, there are multi-asset reasons as to why we've done the localization and why we continue to do sort of some amount of in-sourcing rather than actually buying A couple of things. One is largely also driven by the customers' requirement of some of the strategic processes, to be done in-house. The other is obviously to streamline the supply chain and reduce the dependency because of the higher lead time that we have seen.

The third aspect is with regards to cost. Cost is something that while obviously when we take the decision, it's beneficial to us and a project like NEST, that's what we have mentioned in the capacity in the capex slide as well, is significantly going to help us in terms of sort of improving our raw material costs. But over a long period of time, these initiatives are largely driven towards maintaining a steady state of supply to the customer and also to reduce dependencies where there are processes which are critical to the product.

So in terms of benefit overall, well, the way we look at it from there in one way or the other, there would be an compensation for this not very clear to sort of comment on 0.5% at this moment. But the endeavor is definitely for each of these projects to ensure that there is a reasonable payback and the hurdle rate of IRR is also taken care of.

Deep Shah: Sir, just to follow up, what is the absolute capex amount for this particular stuff for backward integration?

Manoj Kolhatkar: Well, we keep adding. We had done almost, if you ask me, we have done almost INR 20 crores already in terms of increasing or adding furnaces and machining centers to the biggest commodity that we buy is the aluminum front fork order tubes from China. Now let me also tell that they are really absolutely efficient and real top quality, it's really difficult to even find a supplier in India who can give that quality, that quantity at that price.

So that is why we took this decision of making it in-house. So we've done investment. We are further increasing the capacity by adding one more furnace which got approved just in yesterday's Board meeting. So we will continue to do that. So like I mentioned, and Rishi also mentioned, China is, as you all know, really competitive. So it's not that by doing that we will immediately save some big amount of money. It's not like a localization from Japan or the developed countries where we have 20%, 30% margins.

So that is the difference. But also, let me tell you, there is an improvement. We obviously get some benefit. And the bigger benefit is in terms of the flexibility. So if you know after COVID when there was a steep recovery, we had incurred a freight bill of almost INR 10 – 15 crores in a year for supplies from China because there were COVID factors, container was not available etc.

But now this year, I hardly got a call from any customer during Diwali, even during these higher volumes, which clearly means that it's the supply chain is far more streamlined. It's a much more smoother supplies, which improves our customer goodwill improve cost, no doubt, we don't incur these costs and reduces a lot of stress, unnecessary stress in the system.

Moderator: Our next question is from the line of Chetan Gindodia from AlfAccurate Advisors.

Chetan Gindodia: Congratulations for great set of numbers. Sir, I had two questions. Firstly, if I see 2-wheeler and passenger vehicle volumes on a quarter-on-quarter basis, they have grown by 14% to 16%, whereas our revenues have grown by 10% to 11% on a quarter-on-quarter basis. So has there been any realization decline that we are seeing that we have passed on? And is it now entirely complete, if you can explain this?

Manoj Kolhatkar: Chetan did you say our revenues have probably lost...

Chetan Gindodia: Revenues have grown by 10% quarter-on-quarter…

Manoj Kolhatkar: Yes, 11% yes that's right. And?

Chetan Gindodia: Verses PV and two-wheeler industry which is 16% quarter on quarter basis. So is there a realization decline?

Manoj Kolhatkar: No, I wouldn't think so. In fact the figures that we have in terms of volumes of the industry, let's say in passenger car or CV or two-wheeler, three-wheeler customers, we clearly see I mean our growth has been ahead of the industry.

Chetan Gindodia: Secondly, we have multiple new models, we are part of multiple new models in the PV segment and also increasing our share of business with Maruti. So when can we see our market share improvement in the passenger vehicle side similar to what we are seeing on the two-wheeler side?

Manoj Kolhatkar: As I mentioned, we have already seen an improvement from 21% to 23% in passenger cars. I am talking about year, same presentation last year versus this year. Now in two-wheelers, the good point or the blessing that we had was the EV, the change in the dynamics of the market because of the EV players. And many of them being non-traditional, not aligned to any particular, shock absorber maker, that played to our advantage, where they wanted a definitely a good, reliable brand name with a lot of flexibility in development, that's where we could win business. That happened in two-wheelers and three-wheelers. But in passenger car, in the EV space, we are not seeing that kind of a huge volume. So obviously, while our market share will improve from 23% to, I mean, we definitely targeted higher than that, much higher than that, but it won't be in the same pace as 2-wheelers due to, as I said, the dynamics in the market.

Moderator: Our next question is from the line of Akshat Hariya from Multi Act PMS.

Akshat Hariya: Congratulations on record high sales numbers. I had just one question mainly on margins. So if you look at it, we've seen significant improvement in our cost structure below the gross margin level. And that is what has led to our recovery in EBITDA. However, if you look at the raw material cost or the cost above gross margin level, what we see is that the raw material cost which used to be around 71%, 72% up until 2018-2019, now since last few years has been in the range of about 75%, 76%. In fact this quarter also we've seen a sequential increase from 76.5% to 77%. So, and at the same time we've increased our market share so any such indication that the increased share is coming at the cost of lower realization or something like that or when do we think about going back to our historical 71%,72% RMC?

Manoj Kolhatkar: Yes, Akshat, good observation. On the raw material as we all know the commodity cycle was continuously increasing so that definitely increased the percentage. So once these commodities are coming down, we will see some marginal correction, but honestly going back to 72% is difficult because again this is the way the market is moving and we have to compete finally. So, but what we need to do in terms of improving our raw material percentage is try to maximize in aftermarket and on exports.

So that's what we are trying to do, so at least balance out the market pressures. So that's why we are seeing that push in terms of aftermarket, in terms of exports, and yes, getting new technology products. So that's why the push on technology as well, where eventually we will be able to reset the, may not be the raw material, but overall profitability base, we will be able to reset it at a higher level, when you introduce new technology products.

Akshat Hariya: And sir, overall on the EBITDA, our target of double digit EBITDA margins, are we on track and what could be the timeline or a glide path towards that 10% EBITDA margin because still we are like almost 2.6% away from our target range. So the glide path could be mainly through RM cost or even further efficiencies below our gross margin level. And also if you could give the thought process on management fee and any feedback on the feedback which we got on the last many calls. So any thought process on that from the management side?

Manoj Kolhatkar: Yes, so EBITDA, I mean 10%, yes, it's very difficult. I mean, I really cannot give you guidance going forward, but we clearly are focusing towards getting to double digits. It is getting more-and-more difficult, to be honest, as we go along. With every change in the marketplace, we are seeing this is becoming all the more difficult. So, really difficult to define a timeline when it will happen, but we had earlier thought about you know, 2025, but then COVID took away two years, the whole thing got reset. So we have to rework on that number, getting back to 10%. Yes, that's what I think I can share on this.

Akshat Hariya: Sir, any, you know, reward from the board or the management on the management fee suggestions that we've received in last many calls?

Rishi Luharuka: Well Akshat, on the management fee, we've explained in the previous call as well, these are towards expenditures which are incurred by the Anand Corporate towards the various services plus the brand for which we are able to realize the profitability from. And also we have done the benchmark and transfer pricing study on the same as well and we have found that in line with it. This also, as you might be aware, gets tested in the income tax assessment as well. So, from that perspective, we are in line to the principle as well as the percentage that is being given on this. Yes, there are some thoughts and discussions of looking at the model going forward given the increase in sale and volume. But yes, we have to still see that volume on a budget or a strategy number for us to look at the model. So as of now we would like to continue with the current model.

Moderator: Our next question is from the line of Dhiraj Shah from Phillip Capital.

Dhiral Shah: Sir, on the export side, what is our outlook considering the global slowdown and all?

Manoj Kolhatkar: Well, Dhiraj, fortunately, for us, I mean, DAF is really doing very well. They have, in fact, introduced two models, which won the Truck of the Year award and I'm proud to say both of which Gabriel has been supplying. So that way, DAF story is very strong. And the slowdown that we are seeing, of course, mainly on the passenger car side, which we are not currently not supplying. Commercial vehicle is still going quite strong. And the issue, as I said, Volkswagen Russia, which I mentioned, once they decide to shift it to other location that actually will restart. So while it is a temporary setback, but going forward, I see that as an upside.

Dhiral Shah: And sir, how much we are backward integrated as of now? And with the new capex that we are talking about how much this incurred ratio overall?

Manoj Kolhatkar: Well, in terms of aluminum castings, we still do buy a lot from outside sources. But we have close to half of it, we have already done, plus machining as well we have done even more, powder coating also we've installed. So that is done. This is the main component in two-wheelers. Coming to passenger car side, we do the piston rods in-house with a very green and top-of-the-line technology. So that is, again, a main component. We do, I mean, I don't have the figures as such, how much of, on an overall, because it's a mix model-wise, we sometimes do a make versus buy even model wise. So at gross level, if you want me to answer what would be our backward integration or what is the buy that we do, well I don't have the figure, but we can definitely revert back to you.

Dhiral Shah: And sir, lastly, on the aftermarket side, what is our strategy to accelerate the overall growth?

Manoj Kolhatkar: So couple of things. One is we are continuing to increase our penetration and we had done in Tier 2, Tier 3 cities, but we're taking it much deeper and also trying to connect in areas like Northeast, which we can do more. That is one. Second, we have a very successful program called Elite retailer program, which we do in India.

So now we have launched that in Nepal as well, and we plan to do that in the subcontinent, which connects us to the retailer who actually is the main person who can make a big change as far as sales is concerned. So this is the second part. Third part is, as I said, tyres, which we see as a good potential in terms of sales that we had our own challenges where we had to change the supplier as well based on quality reasons, quality and capacity. So we have done that, and the response has been really quite good. So with this, we'll be able to increase our new product push through tyres.

We continue to add new products. We have already done in terms of three-wheeler cone set in terms of we have also looking at drive shafts, and we are already doing the radiator coolant and the front fork oil, etc. So that is already in place. We also added the brake pads last two years back, the passenger car brake pads as well. So with this, aftermarket should definitely improve.

In addition, we have formed a task force internally to improve our time to market and to introduce more-and-more products in the market. So that has also follow in place. That's why you see that we have been able to actually take out quite good numbers, good growth, and as I mentioned, a sale of almost just a little less than INR 100 crores in the quarter.

Dhiral Shah: So can you expect these run rate going ahead?

Manoj Kolhatkar: Pardon?

Dhiral Shah: Can we expect this run rate of INR 100 crores or even more than that going ahead also?

Manoj Kolhatkar: Yes, I mean, I would say, yes. I also forgot to mention, we also added our dedicated exports manager in aftermarket team. So next year, we want to push the aftermarket sale as well. So even that addition we have done.

Moderator: Our next question is from the line of Jyoti Singh from Arihant Capital Markets.

Jyoti Singh: Congratulations on the good set of numbers. So sir, my question is on the EV side that how much of percentage we are going to expect that we will grow? And another question on the competitor side, like we are in the smart lock and key less, how we're expecting it will grow ahead? And last thing that I have to connect with the management from long time but not able to, so if you can help me?

Manoj Kolhatkar: You said your name was Jyoti?

Jyoti Singh: Yes.

Manoj Kolhatkar: Yes, Jyoti. So you noted your last point, we'll request SGA also to try to get that connect done. On the other part, we lost in between, I couldn't hear you, but I'll just mention on the first part which you asked about the EV and the competition and the growth. So it's growing. I mean, as you know, April, May, June, it was at 50,000. I'm talking about two-wheelers, which is the main segment that is moving in EV space in good numbers, that has gone to 70,000 in October, the schedule that we have got in October, November also are good. And that growth rate will continue. I mean obviously, the penetration of EVs is still only 4% compared to the industry, but it is improving. Last year actually, it's gone to almost 6%.

Last year, same time, I think it was about 2%. So from 2%, it's gone to 6% in two-wheelers, in three-wheelers, it is higher. So the growth rate for sure, for next 2-3 years in EV will be very strong, I don't see an issue with that. In passenger cars yes, as long as the OEMs are able to bring cost competitive models, this growth rate may not happen that quickly like it is happening in two-wheelers. There is range anxiety as well. We are reading several reports on the claims range versus the actual range due to terrain, driving conditions is very different. So on passenger car, while the growth we are seeing, but we may have to be a little more watchful. But two-wheeler, three-wheeler for sure, it will continue to grow very well.

Jyoti Singh: Yes. And sir, on the competition side, how we are competing in this market on the like we are in the smart key and key less segment. So there are other number of companies who are providing to OEMs. So how we are differentiating from that and how we are competing?

Manoj Kolhatkar: Sorry, but yes, this is what I could not listen, we lost you for that. But on the car key and smart key, we are not playing in that segment. So we don't have any offering in that segment, in that product.

Moderator: Our next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities.

Jayesh Gandhi: So congratulations on a good set of numbers, and thank you for providing an opportunity Sir, my first question is in the context of a PLI that we have applied for, and what is the status? And can you just help me out in understanding the opportunity in the sensors, which we have applied in PLI ?

Rishi Luharuka: Thanks for the question. So essentially, the step towards this PLI application was done along with the Anand Group of companies for the purpose of being able to qualify the various criteria which were there. We have applied under the sensor category. This project evaluation is complete in terms of the market space study. Also the current customers and the way the supply chain as well as the current production is being done. We are looking at the domestic sensor space only at this point in time. The way it currently stands is that the technology partners are being evaluated in terms of who do evaluate for further discussion, post which we will start looking at the numbers because, again, in sensors, there are various categories of sensors and there we yet to decide as to which one we would like to foray into eventually. So it's currently a little fluid in that space. But as and when the plan progresses, we'd be happy to announce on that.

Jayesh Gandhi: And so what is the investment that we have applied for in that PLI?

Rishi Luharuka: PLI, overall investment would be in the range of INR 40 crores to INR 50 crores over a period of two years of time, but that will all depend upon what kind of manufacturing footprint as well as template we acquire.

Jayesh Gandhi: And sir, last question on the Railways opportunity. We have got a breakthrough in Vande Bharat from Medha, I guess? Can you just throw the throws some light on the opportunity size here? I mean, what can be the sales potential, and that you are looking next for two, three years?

Manoj Kolhatkar: Well, sales potential wise, it still is a small part. But the point is the LHB coaches, which we have seen is moving to this Vande Bharat. So earlier it moved from the old bogeys to LHB. From there, we are seeing a shift to Vande Bharat train. So we are seeing an improvement. But yes, the volume should still be very-very muted, I must say.

Moderator: Our next question is from the line of Pankaj from Affluent Assets.

Pankaj: Congrats for excellent set of numbers. Sir, just wanted to understand, we have been claiming to have a successful cost control measures taken over the last three years to four years. But our margins are still 7 odd percent. So are we in any kind of commodity product, because since I track some other companies or competitors of ours who are enjoying upwards of 10% margins. And in ours, in a question earlier asked by participant, you are quite difficult in saying that we would / it would be difficult for you to give a timeline to reach that double-digit margin mark. So just wanted to understand, since we are into right suspension quality product, why are we not able to defend our margins or claim better margins given the 7 odd % of margins we have been charging historically?

Manoj Kolhatkar: Yes, Pankaj, a good question. So it's not exactly a commodity market, but I mean, yes, there are several players in the market so that there's a fierce competition from what it was earlier. So as you know, in the last couple of years, several players have got added in the play. So that makes it that much tougher for everybody, surely. It is not a commodity product because OEMs still value this product and also give a lot of importance to the ride handling, but really the global OEMs. So I don't think this falls in the commodity space, right. I mean yes, the market pressures are there. And your question about, your point about other players being in a higher margins, actually, of course, there are some in competition who are in listed space where we have the figures. They also are a group of companies. So ascribing that entire margin to this particular product, I don't think would be right. I mean we don't know because it's competition and not that data is not shared. But yes, there is, for sure, room for improving margins definitely, so I think I can only share this much with you.

Pankaj: Despite our success in the cost saving measures, we are still there. Secondly, about this is the first time you have introduced a full-fledged slide on Railways. So, and do we see a substantial portion of share going forward coming from Railways? And are they at better margins? Or that would be a tender business?

Manoj Kolhatkar: Yes, Pankaj, the margin is definitely much better than the others, no question. But volumes are really, as I mentioned, Vande Bharat also the orders that we have is just a couple of crores. So it will take time. And even, I mean, yes, you also mentioned it's a tender business, that's right. So it's a trend of business it gets shared between four, five players. As of now, there are lesser players, but they have a policy where a new player gets a 20% order as a development supplier. So yes, it is always, I mean, you can't expect a higher share, it is distributed. Margins are good, but revenues are reasonably small. They definitely helped in the margin front, not in the top line front.

Pankaj: But I understand that there are orders of around 400-odd, Vande Bharat trains. And are we not present in metro business, metro segment?

Manoj Kolhatkar: No, we are not...

Pankaj: It's also would require…

Manoj Kolhatkar: We are not there in metro. So we have been in talks with Bombardier and Alston. So that needs a different product. But right now, yes, we are not in metro business.

Pankaj: And as there are 400, orders of 400 odd Vande Bharat trains are we getting only minuscule share of the whole?

Manoj Kolhatkar: No, it's only a start now. I mean, once we get in, we normally operate on a 20%, 25% share.

Pankaj: So what is the potential there we can reach?

Manoj Kolhatkar: In terms of Railways?

Pankaj: Yes.

Manoj Kolhatkar: Well, if you see the total revenue now that our revenue is, let's say, first half, we did INR 1,500 crores. So Railways would be a very miniscule portion just about a few percentage points, very low single digits.

Pankaj: So what is the potential then? Can we be / can it contribute meaningfully to our share of revenues?

Manoj Kolhatkar: No. Honestly, no, because this is a completely tendered business. I mean whatever we do, even if we are much better facilities, much better R&D, you have to compete with a supplier who is I mean, what do you say, I wouldn't even sensitive as a Tier 2 supply. So that's the way the business is.

Moderator: Our next question is from the line of Viraj from SiMPL.

Viraj: Just two questions. First is on the capex for this year and next year, if you can just guide what is the capex we are looking to spare?

Rishi Luharuka: Viraj, It should be in the range of INR 120 crores to INR 150-odd crores.

Viraj: So both the years put together or you're talking about each of the years?

Rishi Luharuka: Each of the years.

Viraj: Sorry, your voice was breaking.

Rishi Luharuka: Each of the year, Viraj.

Viraj: And second is on the export piece. So you said that despite VW being not there is still kind of doing around INR 25-odd crores kind of run rate, with the new orders, how should one understand the export road map for us for next few years?

Manoj Kolhatkar: The immediate target is, of course, crossing the INR 100 crores that would be for the year. And going forward now, we are seeing some good interest, at least generated due to the China factor. As you know, the China Plus One strategy, so there are some people who are relooking at resourcing the China imports or China buy. So yes, it will take time. I mean we don't have an order, which we can say, yes, we have got it, so the SOPs so on and so. But we clearly see this materializing into good orders, let's say, from '25 onwards.

Viraj: And last question is on the margin and especially the contribution margin. So by looking only history, we are at lower end of the historical band and the contribution margin. Now I understand there is an impact in terms of raw materials, pressures and other factors, but if I have to look at going forward, your communication seems to be that even close to double-digit margins looks a little difficult. So is it that the new orders, which we have kind of won are they at much more aggressive price point. And hence, the margins which we typically on those segments wouldn't be enjoyed in the future, is that I wanted to understand?

Manoj Kolhatkar: Yes, Viraj. The honest answer is yes, the margins are under pressure. It's not only for Gabriel. This is the overall set of numbers you can actually do a check on the overall industry as well.

Viraj: But in terms of major segments which we have won the order, say, in case of EV, two-wheelers or passenger cars, passenger vehicles in new orders, the base margin in that business is not moderate in material rate? Or has that been the case?

Manoj Kolhatkar: EV, we are seeing better margins, of course, as of now, but yes, once they are under market pressures, things will flow back to the suppliers. But as of now, EVs, we are getting it at relatively better margins.

Moderator: Our last question is from the line of Dhiraj Shah from Phillip Capital.

Dhiraj Shah: Yes. Thanks for the follow-up opportunity, sir. Sir, does content per vehicle in EV is better than the ICE on the two-wheeler and three-wheeler side?

Manoj Kolhatkar: Well, there is content is the same but our realization and margins are a little better. Content is pretty much same.

Dhiraj Shah: Sir, if you can quantify how much realization better?

Manoj Kolhatkar: Sorry, Dhiraj, I can't do that.

Dhiraj Shah: At least 10% or not more than that?

Rishi Luharuka: No Dhiraj, unfortunately the information would be counterproductive for us, so we would not like to share that.

Dhiraj Shah: And sir, lastly, if you can bifurcate your capex, how much for capacity increment, how much for the backward integration and how much for the maintenance, when you are guiding INR 120 crores to INR 150 crores each for this year and next year?

Rishi Luharuka: Give and take, we do INR 20 – 25 odd crores of maintenance capex. Apart from that, everything else would be largely on a capacity announcement or it would be for in-sourcing. The exact mix would depend upon the year as well as the LOI that is going to come.

Dhiraj Shah: So I will love to meet the management if given an opportunity. So we'll speak to your IR?

Manoj Kolhatkar: Good. Thank you, Dhiraj.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Kolhatkar for closing comments.

Manoj Kolhatkar: Thank you and thank you all for your very thoughtful questions. Yes, we understand your key question, the concern that around the margins, we have taken a good note of that. And yes, going forward, the year, as I said, the fiscal year for the country in terms of overall automotive industry, I think will still be good.

Yes, the coming year, which is 23-24 there is likely there will be a likely backlash from what is happening in the global marketplace. So we have to be a little cautious about 23-24, in terms of the volumes. But again, having said that, I think overall economy and the country is in good shape. So we'll still be definitely far better than the rest of the globe. So look forward to meeting you all again in the next call. And thank you. Thank you once again for all your questions. Thank you. Bye-bye.

Moderator: Thank you, Mr. Kolhatkar and members of the management team. Ladies and gentlemen, on behalf of Gabriel India Limited, that concludes this conference call. Thank you for joining us. You may now disconnect your lines.