"Gabriel India Limited
Q3 FY '23 Earnings Conference Call"
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Moderator: Ladies and gentlemen, good day, and welcome to Gabriel India Limited Q3 FY23 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 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 star, then zero on your touchtone phone. Please note that this conference is being recorded.

I now handover theconference to Mr. Manoj Kolhatkar, Managing Director of Gabriel India Limited. Thank you, and over to you, sir.

Manoj Kolhatkar: Thank you. Good afternoon, and warm welcome to the Q3 FY 23 Earnings Call of Gabriel India Limited. And firstly, before I start, let me wish you all a very-very happy and prosperous New Year. Of course, the first interaction that we are having in this new calendar year. I hope this goes well, and we are all are safe and hopefully, we have the pandemic behind us.

So the call may contain forward-looking statements, of course, was already mentioned. So along with me, I'm joined by Rishi Luharuka, who's our CFO, and our Investor Relations Advisors, SGA. We have uploaded our results and the presentation for the quarter, as always, on the stock exchange and company’s website. I hope, all of you had time to go through the presentation.

So what I'll do is, of course, before I take you through the presentation quickly, I'll just give a brief overview of the company's operations and take you along the slide of the presentation.

To begin with, if you refer Slide number 5 on the investor presentation, we had a reasonably good quarter. I mean, of course, yes, it would have been better in terms of volumes. But we had seen many of the companies going in for annual shutdowns this year. So that's why there was a little muted sale. Our expectation was a little higher.

Anyway, the quarter revenue, if you see year-on-year, increased by 17% to INR 711 crores with EBITDA margins, which are stable at 7.2%, mainly due to a commodity price stabilization and the increased volumes. We are able to keep pace with the industry in terms of the increased volumes. And going forward, the last quarter also, we hope to see a good quarter in terms of volumes, we'll discuss more about that later.

The recent budget, of course, while I'm on the slide, I'll also take reference on the budget because it was announced just a couple of days back, I think it was quite a forward-looking budget and the focus remains on green growth. And the focus remains on capex, which, of course, is very good for the industry.

The government has also mentioned about state receiving assistance in replacing old vehicles and ambulances. So at least the scrapping would somewhere begin now. The personal income tax rebate has also been increased, which will provide some more disposable income to salaried citizen, and which, of courseaugur well for the automotive industry.

Coming to the overall business dynamics, domestic automotive industry experienced a healthy revival in FY '23 aided by economic activity recovery and increased mobility. The passenger vehicle growth in the calender year has increased by 22%, commercial vehicle grows with 30%-plus and two-wheelers have grown marginally. While we are a fiscal year company, but we also keep track of the calendar figures.

Overall, it's been a very-very good growth year across the segments. The EV industry, of course, takes the cake particularly in two-wheelers and three-wheelers, which again we'll discuss more when we have the questions. The rise in living standards has increased the demand for premiumization. This is very clearly seen, more than 40% of the sale of cars is actually in the segment, which is about INR 10 lakh. So clearly, there has been a shift from entry-level cars to higher price cars and also SUVs. SUV now form over 50% of the total passenger car sales, which again is, , a good news for the auto component industry and auto industry in general. According to SIAM data, I mean I did share over the passenger cars. But within that, like I mentioned, if you want in figures, utility vehicles grew by 28% and passenger cars grew by 18%, which is what I said, there has been a higher growth in the UV segment.

In terms of commercial vehicles, the salesnumber increased by 12% in Q3 FY '23 compared to the same months last year. In Q3 FY '23, sale of M&HCVs increased by 23% while sales of LCVs increased by 6% year-on-year. It demonstrated continued sales recovery as a result of increased e-commerce, agriculture, infrastructure and mining activity and improved overall fleet owner sentiment. And of course, new model launches and overall better market.

This sector has been kept afloat by the government's ongoing infrastructure development push as well as rising demand for LCV, HCV buses and construction equipment. Despite the fact that the sentiment in two-wheel industry, this is, of course, a segment that has been continuously under a severe challenge. So the sentiment and two-wheeler industry did improve during the festive season in this year during the Diwali time in 2022. But it is still underperforming due to impact combined effect of high inflation and the higher price of the two-wheeler owing to BS-VI and ABS, etcetera. And of course, the increased cost of fuel. According to SIAM data, two-wheeler sales increased by 1% year-on-year, while three-wheeler sales increased by 13%.

Now three-wheeler sales mainly is because all the schools have opened transport has started as normal. So people are not shying away from using a shared transport. That's why we are seeing a good recovery in three-wheelers, which was actually a pent-up demand. Scooters increased by 20%, motorcycles decreased by 5% and Mopeds also decreased by 12% in Q3 FY '23. However, due to a good monsoon, the industry's positive momentum is expected to continue in the near future.

The bus and three-wheeler segments continue to recover strongly and the three-wheeler segment, particularly, has grown 42% year-on-year. And within that, e-rickshaws, the electric rickshaws or the EV three-wheelers as we call, are expanding rapidly. Given the demand for affordable transportation and the emphasis on reducing carbon emissions, electric vehicles will play an important role in India's transition to a more sustainable future as evidenced by particularly two-wheeler and three-wheeler segments in electric vehicles.

There has been a significant increase in prospects over the last 18 months, of course, supported by the FAME II policy, the extended FAME II policy, increased awareness and increased product launches. We are seeing e-two-wheeler and e-three-wheeler sales increasing across India, including in Tier 3 and Tier 4 cities. The majority of automotive segments such as passenger cars, CV, tractors have maintained healthy demand sentiments, but two-wheeler continues to be underperforming, largely as an effect of high inflation in the rural areas.

Now let's go to the numbers again. I'll again refer bck to the presentation that we shared. I did already share on the Slide Number 6. Yes, Slide 6 which says the financial highlights of Q3 FY '23. Revenue of INR 711 crores, as I already mentioned, EBITDA of INR 51 crores, which is 7.2% EBITDA margin, PBT of 5.5%. Net cash position of INR 217 crores. Cash flow from operations reduced by 4.2%. This is mainly on the back of working capital requirements and capex incurred during the period was about INR 23 crores.

Coming to Slide 7, which is for nine months. We have, of course, had a record sale so far in nine months which is INR 2,235 crores almost with an EBITDA margin of, 7.2%, which said it's kind of stabilized as of now, INR 161 crores of EBITDA for these nine months. Cash flow from operations in the tune of INR 21 crores as compared to a higher inflow in FY '22. Capex incurred is being almost INR 70 crores.

Coming to Slide 8, which is, again, the financial track record. You can see from the past quarters that the gross margin has actually improved, because we have had a lesser raw material percentage. So the gross margin is now at 24.4% compared to Q3 in the same time last year, 23.2%. Even if we see Q2, which is the preceding quarter, it was at 23%.

EBITDA is however, slightly lesser at 7.2% because Q2, of course, had a much higher sale, almost INR 90 crores higher sales than Q3. And ROIC, if you see in the table below, for the nine months, it was at 28.8%, which is, of course, the highest in the past couple of years.

Coming to Slide Number 9, which is quarterly performance trend, the same figures, which I did share with you is shown in a graphical format Slide 10 is, again, the P&L statement more in detail.I'm sure you'll have your observations on this and we will discuss on the same post my address.

Slide 11 is the financial track record. So you can see the growth, which we did INR 2,332 crores in the last year. We are already almost close to that in nine months. So obviously, this is going to be a record sale here. And the EBITDA, PAT, ROC and working capital days are shown in the side level.

Key ratios on Slide 12, which, again, I'll skip that as well. Coming to the revenue mix, which is on Slide 13. You can see that in channel mix, 13% aftermarket has grown slightly to 13%. In terms of segment which, two-wheelers has comes down from 66% to 61%. And passenger car has increased, and so also has commercial vehicle and railways, even they have increased. So there has been, as I said, lesser growth in two-wheelers that's why you see this effect. And also better business, better share of business in terms of customers in passenger car, which has led to the increase of the passenger car price.

Coming to individual segments. This is on Slide Number 14 is on two-wheelers and three-wheelers, this includes, of course, aftermarket sales. So this is about 64% of our total sales. Our market share in two-wheelers is 32%. So it continues to increase literally quarter-on-quarter. Our top customers remain the same, TVS, Yamaha and Bajaj Auto. But if you go to Slide 15, which we have shared even the last couple of calls is that our penetration in EV, EV sales forms almost 9% of our total sales. Just one year back, it was about 3%. So good growth on the back of almost a 300% growth in the EV two-wheeler and three-wheeler volumes in the industry. Our market share now here is over 60%. And if you can see the right bottom box, we are there in all the top models, OLA, Ather, TVS, and Ampere and of course, Okinawa, that is currently low, but we supply to them as well.

Slide 16 shows you some new business that we have just started. We described the first production lot to them. This is e-bicycle, which is getting very-very popular, particularly in Europe. So this is for exports only. This is being given to Hero Cycles, who will eventually do the e-bicycles as they call for European market. So we have started this and I mean let's see how it goes. \ This is a good technology and interesting product for us to chase. As we see the trend, particularly in Europe going this way. If anyone of you have visited Europe, you'll see particularly in the Scandinavian countries. In fact, most of the people are using the e-bicycle or just the same bicycle format. So this is something that we are keenly watching. But we have made our first small step.

Coming to Slide Number 17, which is the passenger vehicles.The market share has gone to 23%. This year, the good part is, again, on Slide 18, if you see, as I mentioned, the growing segment in this within the PC is the UV segment, which has grown at 50% in the industry. So Gabriel presence in this segment is becoming stronger. Now in this segment, we actually have 33% of the market share in terms of the utility vehicles compared to our 23% for the overall passenger car. So our position is getting strengthened in the growing segment within the passenger cars. So that is good news. The pictures of the key models that we are supplying today all are on single-store basis. You can very clearly see here. I mean, these are as you know, I mean, absolutely blockbuster models each one of the Jimny is yet to be launched, but this will be launched very soon the bookings are already open and response has been good.

Slide Number 19, shares about the commercial vehicle where, we continue the dominant position that and we have in turn decided to in fact leverage our dominant position here to pursue growth overseas, which has, of course, started through DAF, and we are trying to expand it further into other customers as well.

Slide Number 20 is on railways. I'm very happy to share that we now are there on every train. So LHB is already done. Now we have the Vande Bharat Express. We are the only Indian supplier qualified for this. We were not supplying to the electric locomotive even that development order has been supplied for both these Vande Bharat as well as the electric locomotives. So we are present in every aspect of Indian railways, be it locomotives, be it the passenger car trains. The volumes are still down, but there has been a good growth compared to last year in this segment as well.

Aftermarket. We continue to post good growth and this growth has been I mean last year, we have grown almost 25% at the rate of 25%. So this continues with two new products plus continuous new product development to address each and every vehicle park model. So this has been, of course, our strength, and we will continue to focus on the aftermarket as well.

Coming to exports. Despite the loss of Volkswagen Russia, I mean we all know the reason why. Despite the loss of that, we did INR 29 crores in this quarter. So that is, indeed, a good recovery. This is mainly on the back of good orders from growing orders from DAF equivalents. So that has been, I think, a good story. again, this year, we'll definitely cross the three-figure mark of INR 100 crores for the second year in a row.

Slide 23 is the balance sheet, which, of course, Rishi will explain once we come to the individual question-and-answers and same for cash flows. And the pack is the general overview, which we all are familiar with. So this is what we have to share on overall industry as well as our specific company level initiatives.

I'll now come to the question-and-answer-session and try to answer it and more to each of your suggestions as well as get queries. over to you.

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

Viraj: Congratulations for a good set of numbers and for the challenging environment. Just got two, three broader questions. First is, if I look at our overall business mix for the quarter as well, you got increasing share of CV, then aftermarket is also quite healthy and same is the case for exports. So we have done somewhere around, 24.2%, 24.3% gross margin. While it has improved sequentially, given the kind of mix and the margin structure these businesses operated, one would think that maybe the margin would be even higher than what we reported. So is it that there is still some price under recovery, which is yet to be played out, and we should see that coming in Q4 and onwards. So that is one.

Manoj Kolhatkar: Yes, Viraj, all the commercial settlements have not happened. while one is the commodity settlements are back-to-back, so what happens typically is when we have this down cycle, the OEs are also more in a mood to discuss about also adjusting some overall inflation. So that's why some of the settlements are yet to happen. You might see some of the spillover effect.

Viraj: Second question is largely on the working capital. We supply to a sizable number of EV players, and many of them are startups and some of them, we are a sole supplier. So the kind of what we've been hearing is that many of these suppliers, they have somewhere between six months to one year kind of subsidy outstanding from the government. So for us also, do we see any possibility of write-offs or any extended subsidy receivable risk from those customers?

Rishi Luharuka: HiViraj, this is Rishi, here. So it's an important question given the current things, which are happening. Fortunately, for us, we don't have any overdues from any of the EV players, other than one. And that also is a very small amount, and we are in constant touch, and we are 100% certain of recovering that value.

Viraj: And last question is largely at the parent announcement. So they have talked about a pretty big initiative in terms of the EV strategy. So just trying to get some perspective in terms of where do we fit in them?

Manoj Kolhatkar: Viraj, we missed the first part of -- what was it?

Viraj: So the parent they announced a new EV initiative and aspiration from the EV exposure over next five years to seven years. So in terms of Gabriel India, do we see any play other than suspension or Ride Control products?

Manoj Kolhatkar You're looking at if Gabriel is going to enter any other products in EV, is that your question?

Viraj: Yes. With regard to the recent announcement by the parent?

Manoj Kolhatkar: I was wondering. Yes, that's the ANEVOLVE that we have announced. So we've announced three different JVs in that. So yes, Gabriel as such, we are not looking at any more products we added in the EV space, particularly, because all our EV, clean mobility platform will be under that ANEVOLVE, that's what is the announcement very clearly. But, however, we are scanning, I mean, as I said, I did not mention on that. On inorganic opportunities, we are actively in advanced discussions on a couple of projects, which obviously, we cannot share until we have more I mean we have made more headway and we are firm on it. So but otherwise, on EV products as such, pure EV, I mean, like motor, controller, battery, charger, etcetera, that will be under the domain of ANEVOLVE.

Viraj: So when we say inorganic opportunity, that is primarily related to the suspension and Ride Control products?

Manoj Kolhatkar: Yes. And like I mentioned, we are also looking at maybe expanding our portfolio as well.

Moderator: Our next question comes from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Yes, sir, you've mentioned about the EV side. So if you could give some color on 3Q, you mentioned about the total EV growth, the total two-wheeler growth. So similarly if you could give us some numbers on the total EV volumes for 3Q? And your market share, you mentioned was about 60%. So any guidance on where you see the market share of going ahead, I believe, it was 66% in 2Q.

Manoj Kolhatkar: Yes. Pallavi, we could not get, but you can correct me if I'm not answering your question particularly. But if your question was about EV market share for Gabriel in suspension, we are at 60%-plus as of now. Going forward, in fact, we have got two more new orders. You know the Ultraviolette, where TVS has the stake, the motorcycle, very-very good looking motorcycle that was launched, we have gain entry in that. We have added a couple of other new EV players. So our endeavor would be to continue to hold on to this leadership position. Yes. However, having said that, obviously, our leadership position is never easy, especially in a high-growth and highly attractive market segment. But yes, so far, it's been a good story, and we will continue to reinforce our engagements also just to share our relationships with all the EV where we are supplying has been, in fact, very good. So I don't see any big concern on this market share holding on in terms of two-wheelers and three-wheelers. In passenger car, yes, the leader is Tata Motors. The volumes are still I mean, not so big, but still, I must say, not bad at all. They'll be doing almost 40,000-plus. So while we are not on Tata Motors, we have entered Tata Motors through the Tiago segment. And we have also just shared in the presentation pack also, we've also got entry into Tata Motors, a new SUV platform, which, as we learned, is also going to have an EV in its fold. In addition, the newly, you must have read on the Peugeot Citroen eC3, that's the electric vehicle. There, Gabriel is 100%.

Pallavi Deshpande: And what would have been the growth in this the two-wheeler EVs for 3Q, the year ending quarter? I understand that entire sector grew 1% just EV portion?

Manoj Kolhatkar: EV portion?

Pallavi Deshpande: For the industry.

Manoj Kolhatkar: For the industry?

Pallavi Deshpande: Yes. two-wheeler EVs.

Manoj Kolhatkar: So EV two-wheeler going to grow overall as an industry?

Pallavi Deshpande: Yes, for the industry, how much did it grow in 3Q?

Manoj Kolhatkar: In 3Q, if you see two-wheelers, it's been doing almost 70,000-plus per month, which was hardly 30,000. So the growth has been, in April, May, June, in that month, it was about 40,000, 45,000. That is 70,000, 75,000. So the growth has been very-very significant in two-wheelers.

Pallavi Deshpande: So FY '22, you grew 85%, that's right?

Manoj Kolhatkar: FY?

Pallavi Deshpande: FY '22 over '21.

Manoj Kolhatkar: Yes.

Pallavi Deshpande: And so right now, the 70k will be maintained, right? I mean, like you said, new customers will be added to 70k on the EV side?

Manoj Kolhatkar: Yes. They'll be added on top of this. Fortunately for us, if you see the market dynamics also, OLA has gained the top position, where we are 100%. Ather is doing extremely well. It's Number 2, we're 100%. TVS is, again, amongst the legacy players has taken a very-very good core position in legacy players. There, we are 100%. So all our customers actually are fortunately doing extremely well, and we are 100% there.

Pallavi Deshpande: And so would it be fair to say that margins would be higher in this portfolio versus the traditional portfolio, the EBITDA margin?

Manoj Kolhatkar: Slightly, yes.

Moderator: Our next question comes from the line of Dhiral from Phillip Capital, PCG.

Dhiral: So what will be our outlook for the export segment in FY '24 and FY '25 with the new business of this e-bicycle, which we have received from the Hero Cycles?

Manoj Kolhatkar: Yes. So in fact, this year, again, as I said, despite the Volkswagen setback, we'll cross INR 100 crores. So next year, so we've added this bicycle. I mean we don't know how it will go. It is still early days. But we see this market to be growing. I mean, I would say, at least not in next year. I'm not telling we'll do this next year, but I would say INR 20 crores to INR 50 crores will surely come through this e-bicycle.

Dhiral: And the step of this e-bicycle, what will be the export guidance for next two years, a couple of years?

Manoj Kolhatkar: It is difficult as they have also just started, the relationship has just begun. We'll have to see. I mean, the volumes that they have shared with us are much higher. But it's very early days for me to take an estimate because it's a completely new segment, the only thing, yes, we see, I mean, terrific growth potential. I mean the numbers in Europe, this market is growing at, again, 30%-plus in Europe. But we'll have to see how successful is our customer there. So it's very difficult for me to take a guess right now.

Dhiral: And sir, Maruti, this year, they have showcased on two new SUV, Fronx as well as Jimny. So we are there in Jimny. I believe we have not received the order for the Fronx platform.

Manoj Kolhatkar: Yes, that's right. We are there are on Jimny.

Dhiral: So what about Fronx, sir? Who will be supplying to Fronx?

Manoj Kolhatkar: Fronx is more a Baleno platforms, so it will be the competition.

Dhiral: So on the electric passenger vehicle side? What is our market share right now?

Manoj Kolhatkar: Right now, it's only low. We are there only on the KUV100, which hardly sells a few numbers. And Tata Motors Nexon EV is almost exceptional the market share. Where we are not there as of now. The deal is going on. We are not there as of now. So in EV PC, it is a very-very marginal market share today. But eC3, the new PSA offering, which is going to get launched probably this week, , we are there 100%.

Dhiral: This is from the Tata Motor side, sir?

Manoj Kolhatkar: No. This is Peugeot Citroen.

Moderator: Our next question comes from the line of Raj from Arjava Partners.

Raj: Looking at the overall outlook you have given, looking at the cash you have, so four years to five years from now, how do you see the company going on, like sales figure and everything? What do you aspire to be?

Manoj Kolhatkar: I think that we have articulated through our vision. It's very clear that being in the Top 5. So while we have not given a figure in terms of the top line, but, yes, you can make a good estimate based on that vision.

Raj: And looking at your existing installed capacity and everything, how much of the peak sales, which you can do out of these facilities?

Manoj Kolhatkar: Okay. So the peak sales, I had mentioned this some time back also, I think close to two years back, that with the current plant installed capacity that we have, we can definitely reach up to this year's volume, which we had told INR 2,800 crores to INR 3,000 crores we are right now. Now we have a land bank. We definitely have land bank. So we'll be expanding some facilities in Chakan. We'll also be expanding a little bit in Sanand, probably in Dewas...

Raj: Kind of an expansion to an extent, right?

Manoj Kolhatkar: Yes, expansion. We may also go to purchasing some land. Now it's mainly, of course, to add to the land bank going forward.

Raj: And after you expand and about the sales and everything, how much would be the margins and all? Or will it be accretive to the existing levels?

Manoj Kolhatkar: As I mentioned, to reach EBITDA double digit, but that target remains in our new business acquisition also. But yes, there are market triggers, I mean, as margins are important, yes, I mean, for surely, gaining market share also is equally important.

Moderator: Our next question comes from the line of Viraj from Securities Investment Management Private Limited.

Viraj: Just a few more questions. First is on the e-bike initiative. If you look at even the traditional bike segment, we've kind of shied away because the product offering was very commoditized and not much margin in that business. So when we look at e-bike, if you can just elaborate a bit more in terms of the thought process? How are the realization margins in this business? And globally, also, if you talk about Europe, the market is already a couple of billion dollars, and it's going in a very healthy way. So when we look at our play or aspiration in this over next coming years, what it could be for us?

Manoj Kolhatkar: Yes. So coming to e-bike, I mean, yes, this market, of course, the traditional bike, I mean when I talk about bike, here is bicycle. Of course, I assume it's the same thing you are referring to. Is that right?

Viraj: Yes.

Manoj Kolhatkar: Yes. So in India, bicycles, of course, are the lowest I mean the most basic level mode of transport. But, however, you are seeing now, even in India, there's a huge increase in lifestyle bicycling, sports, fitness, where people spend anything from a minimum of INR 20,000, INR 30,000 to INR 3 lakhs, INR 4 lakhs per bicycle. I think I'm sure you also and some of us also do own these bikes and pursue it as a lifestyle hobby. And in elsewhere in Europe, it is even much more prevalent that you must have seen. So we see a huge potential. And of course, the price offers a better leeway in terms of higher margins as well, for sure. So we see a very good growth possible.

In fact, if you see at the total, I mean the figures that we have got in terms of the growth rates are really extremely encouraging. I mean, I can't share those figures, but they are quite encouraging as far as Europe is concerned. So that's why we decided, as a very carefully chosen product segment, so it is only these front forks. Again, not all bicycles have front forks. There is many bicycles have fixed front forks and many have front fork, which we are talking about, where if we have a damping, where you can even adjust the damping.

So we are only going to play in that space because essentially, once it is that type of front fork, it is a lifestyle bike or a mountain bike, where customer is willing to pay. I mean, I'm talking about the end customer is willing to pay a very good price to the bicycle maker.

Viraj: So in that sense, what would be the addressable market for us? And who will be other major players catering to this?

Manoj Kolhatkar: I mean these players, I mean nobody is in India, of course. I mean, mainly, there are a couple of players who dominate this market, a company based in Taiwan called Sr Suntour, and there are a couple of, one is based in US, is mainly in these markets. So there is definite potential for some good player in India to emerge in this space.

Viraj: And second is, what you said earlier, the comment you made on acquisition that we are pretty close in terms of closing it. So that is largely, the acquisition, which we are looking, is it largely from a technology gap perspective? Or is it more towards the market access or region diversification kind of thing?

Manoj Kolhatkar: Yes. In fact, the mandate that we have also internally discussed and decided upon is actually addressing, yes, one is technology, second is new markets, new geographies. So and in fact, even, a strong brand. So these are some of the key, I mean, boundary conditions that we have kind of defined for our acquisitions. So that's what our pursuit remains in that space only.

Viraj: And is there any minimum, maximum ticket size, which will be okay to quote into the size or scale?

Manoj Kolhatkar: I mean, obviously, yes, we are not wanting to bite something that we can't chew. But well, as long as it's a very I mean, very good brand with very-very good technology and a solid customer base. If it is that, we are open to looking at even a bigger size, yes.

Moderator: Our next question comes from the line of Pallavi Deshpande from Sameeksha Capital.

Pallavi Deshpande: Sir, just on the cost side, if you could share any initiatives being taken and let us a better understanding on the margin trend because any improvement there? And secondly, what percentage of the aluminum castings would be outsourced?

Rishi Luharuka: So Pallavi, I'll take the first one. So in terms of the RMC percentage, yes, it's the largest number in the P&L. And there is a systematic approach towards looking at that. We start, for example, the year with the workshop where we look at the top parts, which contribute to our sales and then we break it down to the last component, and thereafter do a proper workshop with all the plants and the people there to come up with projects, which will help us reduce the consumption.

The other part is to look at wastages. That's broadly under the Core 90 program that we run that helps us to keep either it in check or even reduce it further. The third was when the commodity cycle was up and we had taken a very concerted effort to ensure that we have 100% recovery or close to 100% recovery from the OEMs and to ensure that all prices or commodities, which were not indexed to get settlements from customers. The last was with regards to improving the price margins on various products where settlements have not taken place in the past owing to various reasons.

Now the commodities are on a downward cycle or a little bit on bad side. So now the idea and the sort of approach is to ensure that things which were not settled earlier for with customer or for particular programs, we also now negotiate and don't give the whole downward movement to the customer, again, depending upon the each and individual conversation. On the aftermarket side, we faced a bit of a higher cost because we could not increase the price in line with the commodity. So now with downward cycle, that's an opportunity, but it all depends upon the market forces. On the aluminum casting?

Manoj Kolhatkar: Aluminum casting, I mean, we have brought down our buying basically from China. I mean you depend on China for we still do buy it, but now it's more of a choice. I would say, the percentage in-house versus bought out for outer tubes will be 60, 40.

Pallavi Deshpande: 60 will be in-house?

Manoj Kolhatkar: Yes.

Pallavi Deshpande: And sir, China was how much percentage?

Manoj Kolhatkar: Yes. The rest of it was mostly China. Yes, we have developed some sources in India as well, about 20%.

Moderator: Our next question comes from the line of Nihar Shah from Enam Investments.

Nihar Shah: I just wanted a clarification, just to make sure I heard this right. You mentioned EV sales, as a percentage of our total revenue is now 9%?

Manoj Kolhatkar: Yes, that's right.

Nihar Shah: And for the e-bicycle business, I mean, that segment is more popular outside India. Any other customers that we are tapping into in Europe for this product?

Manoj Kolhatkar: So that's the idea. The e-bike, while we started with this one customer, who has given us the entry and, of course, supported us in the development, so we will go with this customer. And the idea is eventually to reach out to even other customers once this product matures because it's surprisingly quite a different technology from what we give for two-wheelers -- for the regular ICE engine two-wheelers. This is quite a different, bicycle is quite a different, it's not just cut, paste. It's almost entirely a different development.

So we will start with this and then, one year down the line, I'm sure we'll be able to find our own good set of customers. There is a market, and we feel there's also a need for -- there's space for one additional source for sure.

Nihar Shah: And another question on working capital. I think we've made a lot of efforts to reduce the working capital days over the last two years. You seem to have seen a trend towards the mean of around 30 days. So can you talk about what's happened to working capital? And where do you expect this to go going forward?

Rishi Luharuka: So Nihar, on the working capital side, again, it's largely owing to reduction in the payable days. Debtors have remained a couple of days a little higher again in the 30-day to 60-day bracket and two-odd days have gone up on the inventory side. So it's payable. Why payable? Essentially because a lot of commodity settlements take a little bit of a lagging effect as far as paying the cash out because a lot of documentation involved.

Also, if we compare with the previous year, there were some one-offs, which have now got paid off. So payables have, in this particular cycle, in the third quarter, we have reduced as compared and that's what the reflection on the working capital side is. As far as normalization is concerned, we would like to bring it down to, the 20 days, 22-odd days number, and that's what we end up with it.

Nihar Shah: And just one last question from my side. In the PV space, the FSG technology that we've come out with, just wanted to check, are we currently only supplying to the XUV700? Or have we got newer models for this as well?

Manoj Kolhatkar: No, it's currently only XUV700, but we have already offered the product to at least two other OEMs. May I just to clarify, I think I mentioned so that you are also clear that this is almost 9% on the two-wheeler sales. On the total it is about 4% to 5%.

Moderator: Our next question comes from the line of Nikhil from Securities Investment Management Private Limited.

Nikhil: Three questions. One is on this e-bikes. Now we've been having previous interactions. But this looks like a new development. Do you think there are more such opportunities, which we were not targeting earlier and can be tapped into now? Or do you think that these are largely opportunities, which we have tracked, tapped now completely?

Manoj Kolhatkar: So Nikhil, a valid question. In fact, we had targeted the bicycle segment some time back. In fact, we had even supplied a few samples and actually stopped the production because the product realization was just too bad. It was too low. This was for the Indian bicycle. But we nevertheless continued with our strategy in exploring this segment. And this e-bike, like I said, offers a wholly different proposition when it comes to value and willingness of customers to also pay us a good remunerative price. So that's why we had started this some time back, which is coming to fruition now. We've got a good anchor customer as well.

Within the suspension domain, there are probably just one or two more products left, which we can pursue. One is, as you know, as we call it the tailgate balances or the dicky gas lift, as it's called, that's one commodity where, again, the price is a bit too low. So we were not pursuing. But as we see the price is improving now, we do that. We are the market leaders in aftermarket instantly for this product, while we do not manufacture, but we are the market leader. The brand is very strong in aftermarket for this product. So this is one product that is available and left, but we'll have to see in terms of the economics. So it's a choice that we or a decision that we have made not to pursue that right now.

Nikhil: And this the bike segment, globally, if we have to understand, it would be a couple of billion dollar kind of end market, the customer market?

Manoj Kolhatkar: Yes.

Nikhil: And there, this is our first entry?

Manoj Kolhatkar: Yes.

Nikhil: In this market. we have a defined confirmed volume share from the customer for these products, like when you mentioned INR 30 crores to INR 50 crores, is it like a confirmed volume share, and we would be the sole supplier initially?

Manoj Kolhatkar: Well, it's not a confirmed volume share, but they have definitely shared some very good numbers based on their export offering. So as I said, we see this in the range of INR 20 crores to INR 50 crores for sure. The market size can, again, be even much, much larger than that.

Nikhil: Yes. So where I'm coming from is like in DAF, we started with a small segment. And then over the years, we've been pleasantly surprised with the business increase we've been seeing, should we see that the similar trajectory can be followed in this product segment also? Or would you say because DAF is a much larger business in terms of the brands and operations, on this segment, do you see it can provide us like additional INR 100 crores eventually, not in two years, three years, anything, but can it be eventually INR 100 crores, INR 150 crores a business segment for us?

Manoj Kolhatkar: Yes, I'm pretty hopeful.

Nikhil: Secondly, sir, on railways, you mentioned that we are part of most of the locomotive side as well as on the wagon side. So, and we know railways has a big plans in terms of the Vande Bharat and intensity with which the whole modernization of railways is happening. How big can, do you believe this opportunity can be? Because as I understand, it was majorly a two-player market between we and Escorts. So one is, how big? And secondly, do you see more competition coming? Or has the competitive intensity remained among the two players?

Manoj Kolhatkar: No. Competitive to intensity has definitely increased. There are more than four players now. That is number one. Second, whatever we speak about while, yes, there are the India Railways and the government is very bullish, and they are talking of very big plans. The numbers, I think, the volumes are still very-very small. Even if they talk about, they're making 3,000 coaches, they'll go to 4,000 coaches. While the percentage number may seem very high, but eventually, I mean the absolute numbers are just so low that it can't create a big difference to the revenue side. That's our issue.

And then it's a tendering base business with us. So once alternate sources are developed, we reap the benefit for LHB when we were one of the two Indian sources qualified. But once eventually when everybody entered, unfortunately, there doesn't seem to be a good premium being offered for a quality supplier, then you all fall into the normal tenders.

Nikhil: So at best, railways cannot be more than a 5% business for us?

Manoj Kolhatkar: Yes. I mean, that is also...

Nikhil: That would be still an optimistic number, but...

Manoj Kolhatkar: So what we are doing instantly is also we are now looking at railways overseas. We had a small order where we cater to Sri Lanka Railways. So we are looking at some focused markets where the railway penetration is good in those countries. And we have, in fact, engaged an agency as well to pursue some orders overseas. That's one offshoot of our plans for railway growth that has come up.

Nikhil: Last question on acquisition. Now I know we've been interacting with you for the last two, three years, and you've mentioned that we are looking at acquisitions. We are talking at the companies, looking at deals. Where are the roadblocks you are finding in terms of closing those acquisitions? One, you have said about price and valuation not matching. But where are you finding roadblocks in terms of closing the acquisition?

And secondly, you said about, we would look at the brand as an acquisition target. I don't understand because Gabriel already has a very strong brand positioning in the Indian aftermarket. And even in the global aftermarket, our aftermarket business has grown pretty well. So how does the brand fit in, in our scheme of things, maybe technology or geography, I would have understand. But on the brand side, if you can just help us understand, how do you see void which can be filled?

Manoj Kolhatkar: What we meant by brand is brand supported by local footprint. And for start-ups, Gabriel, we own the brand only in India, India and the subcontinent and China. So China Gabriel, unfortunately, is not known. It's a very strong brand in this space. But the rest of the Gabriel is obviously not with us. That is with individual geographies over there.

Secondly, when it comes to brand, there are, I mean, let's talk about even Indian market, like you'd always have some very strong brands within each country. I mean, Amul in India is absolutely known, everybody knows the brand, whereas overseas, nobody would know.

So there might be some Amuls or some Gabriels in different geographies, which are worth pursuing. Obviously, that is one way to get the top line, I mean, the top line and bottom line. I mean to get the business. So that's one entry. That's where the brand comes in. If you want to play in the aftermarket space, brand is, of course, extremely important. In OE space, it may not be so important, but an aftermarket, it definitely is important. That is on the brand part.

The second on the road blocks, well, we unfortunately had proceeded some way and then because of COVID, wave-after-wave, we had to actually hold back our plans. Even the target also had to ask us for keeping the plans on hold for some time. So COVID has definitely played a spoilsport in terms of physically, visiting or having discussions and, unfortunately, it was wave-after-wave.

Then yes, even due to COVID, the target, I mean, obviously, the company's financials also, every company financials went through, so they wanted to consciously defer the whole discussion. The roadblock has mainly been that. I don't see any other roadblock. Yes. And being the first acquisition, obviously, we are also going to take it very cautiously, yes.

Nikhil: And what prevents us from buying the entities who own the brand outside of the subcontinent, saying in LatAm or other markets. So are you looking at such kind acquisitions outside of India because there Gabriel brand is probably well known. And I think somewhere you've mentioned also in one of the calls that Gabriel globally, as a brand, commands something like a $300 million, $350 million sales in the total shock absorber market. So are you looking at or are there any opportunities, which are available for acquisition outside?

Manoj Kolhatkar: Yes, they are available outside as well. I mean, as I said, we are looking both outside as well as some opportunities within India as well.

Nikhil: And last question was, in the call, you mentioned that some of the RM cost, which we couldn't recover and that you've always discussed, that the RM inflation was not completely recovered. As a result, the gross margin did take a hit. Now when the RM prices are softening or benign, we will try to take back or get some benefit because on the upside, we took the hit.

So if we have to consider all of this, do you think our normal gross margins, our historical gross margin was something around 20%, 30%, but considering the competitive dynamics and everything, do we think that we can recover back to a level of something like 25%, 26%. We are already at 24%, 24.5% this quarter. But would you say that 25%, 26% is the gross margin where the company can operate with the mix of business and everything?

Manoj Kolhatkar: Yes, I mean, absolutely. Like I mentioned, the gross margin is one part. I mean, our target remains to get back to the EBITDA that we did earlier. So yes, I think we surely can get there.

Nikhil: Because if gross margin comes to 25%, 26%, we would be inching closer to that double-digit EBITDA margin because the major hit has been on gross margin for us.

Manoj Kolhatkar: That's right. Absolutely.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for the day. I now hand over the conference to Mr. Manoj Kolhatkar for closing comments.

Manoj Kolhatkar: Yes. Thank you. Thanks for all those interesting inputs. And like I mentioned with you we also now exploring our journey of new high-growth areas of EV and one more good area we identified is the e-bicycles as well, and we'll continue to pursue in the space. And of course, you're, I mean, welcome to also share with us on any leads that you have.

And the last quarter, which is Q4, yes, it's so far is looking at, it started sluggishly because of the shutdowns in January. But nevertheless, the demands now look quite good. The semiconductor issue of passenger cars, particularly, is still not out. I mean, we're not out of it completely as an industry. It's definitely reduced. And then, yes, to add to it, of course, the budget was, I must say, quite a, I mean, fair and long-term outlook budget of growth. So with all this, we hope that auto industry will continue to grow in the coming quarter and the coming years as well. It may not be at this pace. I mean, obviously, this was a lot of pent-up demand. So yes, I mean, all-in-all, definitely an interesting space for us to be in.

So with that, I thank you all for your support and your enthusiasm and interest and wish all of you continue to stay healthy and stay safe as we find our way in the New Year. Thank you so much.

Moderator: Thank you, sir. On behalf of Gabriel India Limited, we conclude this conference. Thank you for joining us, and you may now disconnect your lines.