“Gabriel India Limited

Q4 FY '23 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Gabriel India Limited Q4 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 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 participants' lines will be in a listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during a conference call, please signal an operator by pressing star then zero on your touchtone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Kolhatkar, Managing Director of Gabriel India Limited. Thank you, and over to you, sir.

Manoj Kolhatkar: Thank you. Good morning, and a very warm welcome to everybody present on the call, and thanks for joining. Hope you're all doing well. Joining me today is Rishi Luharuka, our CFO; and Nilesh Jain, our Company Secretary; and our Investor Relations Agency, SGA.

As you all must have seen, we have already uploaded our results for the full year and the quarter 4 and full year and investor presentation yesterday on the stock exchange. Hope all of you had a chance to go through the same. And of course, we did have a special call after our JV announcement in early May on May 10, if I recollect.

So, this is our second call for the full year results. So, I'll give a brief overview of the company's performance and take you along slide by slide on the presentation, and then open it up for any questions and clarifications.

So, if you refer to the presentation, I think the first few slides, I think -- straight, you can go to Slide number 5, which captures the quarter performance. We did a sale of INR 737 crores, which has been a healthy quarter. I mean, of course, not as good as Q2. As you all know, Q2 is the festive season quarter that is always the best. Second is this quarter, which is in line with that to INR 737 crores of sales, with an EBITDA of 7.1% and PBT of 6.1%.

If you come to Slide 6, you can see that, again, the same figures here, but just to share that the cash position has now improved to INR300 crores, and the cash flow from operations has improved to INR115 crores as compared to INR31 crores in the corresponding quarter last year. We incurred a capex of INR37 crores in the quarter. So, this is for the quarter.

And if you come to the slide -- next slide, which is for the full year, we had, of course, the best year, like many of us in the auto industry because it was a fabulous year for the auto industry as a whole. We did INR2,972 crores. So, we just missed INR3,000 crores by a small margin which is a growth of 27% compared to last year. And EBITDA, we posted a growth of 46% compared to last year and PBT 40.7% growth compared to last year. Again, the cash flow has been good to the tune of INR136 crores compared to INR95 crores in the previous year. Capex incurred for the period is INR106 crores.

Going forward, we are, of course, expecting that we'll deliver a strong quarter again, I mean, in terms of industry. So far as holding on to numbers, there was a bit of concern due to the implementation of OBD-2. However, April and May have been okay, of course, yes, this year as an industry just to give you perspective, we are expecting it not to be as strong as last year. It will still be a growth year, but more in a single -- as a high single-digit is what is the overall expectation of the industry.

So, we are also happy to announce that the Board has recommended based on the last year's performance, the Board has recommended the final dividend of INR1.65 on the face value of INR1 and this is subject to the approval of shareholders. So, the dividend payout ratio is maintained, in fact, maybe a little much higher at 28%.

Coming to the industry, while I'm speaking on that, there was overall industry growth of 22%. Each segment has done well despite the inflationary pressures and continued semiconductor issues. We still saw good growth because there was good pent-up demand and that still holds on. As you all know, if you go to buy a car today, I think no car comes without a waiting period, and some cars particularly SUVs, come with a waiting period of as high as even 18 months. So even 2-wheelers did post a growth of about 8% to 9%.

Passenger cars did very well in terms of growth compared to last year of 27%, commercial vehicles by 34%. Tractors also had a record year. Of course, we don't supply to tractors, but as form part of the automotive industry, they also did very well, almost hit 1 million figures in '22, '23. And 3-wheelers because of the schools opening up and the commuting coming full-fledged after the COVID years, it grew a fantastic 87% year-on-year. And as you all know, Gabriel has a good market share in 3 wheelers.

Overall, the industry sales for passenger cars were almost 3.9 million vehicles, which is the highest ever for the industry. The previous record was -- in '18, '19, which was about -- 3.3 million with significant growth over the highest period which we saw pre-COVID. So that's really a good sign and we surpassed Japan to become the third highest passenger car market in terms of sales.

Again, the various factors did contribute. One was the pent-up demand following the pandemic. A lot of new models and cutting-edge technology and features being offered by each OEM. So, this really created a lot of interest among the buyers. Improved availability of semiconductors. When I say improved, it's clear that it is still not behind us. What we hear is the semiconductor chip supply for auto industry will continue to remain a challenge for at least another 2 years. This is what, again, some OEMs shared with us.

And we are also seeing some shifts like the entry-level segment is facing a challenge in passenger car, but the higher ticket size cars, especially a SUVs and the premium end models within those are selling much higher and they're growing much higher, which is again good news for us.

In terms of CV last year, we saw, again, a fantastic growth of 34% on the back of the infrastructure projects of the government. And again, we feel the growth will continue, but not at this rate in this year. And the bus segment rebounded very well, which was mainly because of schools opening up, as I mentioned, and 3 wheelers as well. There was some pre-buying that happened in the March due to this OBD-2 norms coming into place and the price hike that happened in 2-wheelers and commercial vehicles and passenger cars as well. So there are some pre-buying, but nevertheless, demand is still good.

Two-wheelers continue to remain a challenge while we saw good growth. But again, this year, there are some -- as we are reading, there is the El Niño effect which is going to play some role in a little bit below normal ones, while it will still be okay, but it is supposed to be 95%, 96% of the average rainfall. So, we'll have to see how that unfolds. Of course, the price increases that have happened in 2-wheelers continue to pull the challenge and of course, add to that the fuel cost increase. So, we'll never see 2 wheelers, but again, the prediction of the industry is, it will be a growth in the range of 7% to 8% for this year.

Exports particularly in 2-wheeler, which is a big part of each OEM, also saw a lot of challenge due to some issues in the African continent, which hopefully should ease out in the coming year, and that should start some recovery.

The good part and the bright part are, of course, the EV, the electric 2-wheelers, 3-wheelers, and in fact, even passenger cars for that matter. As an industry, we crossed 1 million sales totally in EV. So that's one big milestone to start with. And the sales are continuing to be robust. And I'll, of course, come to the EV story when I come to that slide. So overall, I think it's been a good year.

Now I'll come back to the slides. We are -- right now -- r where we left at. I was at Slide 7 when I got into the overall industry. So, I'll just come back to the slides. If you come to Slide 8, which is more of a financial track record. Again, the figures are there where you must have gone through the figure. The strengthened net worth, better ROIC and of course, net working capital also improved over FY '21. So that's also good. And ROCE as you see forward, it's almost 31%. That is on the Slide 9, which is slide on which you can refer to that right now. So the ROCE is at 31.5%.

Coming to Slide 10, which is, again, the P&L statement which I already shared. So I'll move on to the next slide, 11, which captures in summary, all the key financial parameters. I did mention on the ROCE and the improved ROCE. In fact, among the highest ROCE that we have seen in the past, the highest ROCE that we have seen.

EBITDA also, while we have discussed in several calls in the past, and we have been working on several initiatives to improve EBITDA. You can see the trend reversing from the last 2 years, and we are hopeful of maintaining the strength and improving it further. Slide number 12 is the key ratios, dividend I already did share. It's totally INR2.65 which is INR0.90, which was declared on the interim and INR1.65, which we declared yesterday, so totally INR2.65, which is a dividend payout of 28%.

In terms of -- again, coming to Slide 13 which is -- we share the revenue mix. The good part is the passenger car has really improved in terms of our sales and overall industry sales. I'll come to the share of business slide later. So, our overall 2-wheeler share is now at 59%. Passenger car is 27% and commercial vehicle is 12%.

In terms of the channel mix, OEs, the demand was very, very strong. So that's why that is 85%. And to that extent, when we had an excellent year in aftermarket as well, we did close to INR380 crores of sales in aftermarket, which is again record performance and very good growth compared to last year. However, OE demand has been very strong. So that's why you see the channel mix reflecting that.

And now if we come to Slide number 15, and we'll get into each of those areas shown there. So first is the export part. Exports, we once again for the second year in a row, crossed INR100 crores sales. In fact, we had higher export figure is marginally higher, higher growth last year. But the good part is you're able to cross INR100 crores.

Why I say it is good is because we -- as you know, we had a challenge that the entire Volkswagen Russia sale has become 0 due to ongoing conflict there. Volkswagen, as you must have read -- Volkswagen has shut shop and sold it to a Russian outlet. So, we are working with Volkswagen on some other export models. But however, that will take some time to fructify.

So, despite this setback on exports, we still did cross INR100 crores. So that's the good part. And coming to the second part of this business driver is domestic dominance. On 2-wheelers, as I mentioned, our traction with all players have been increasing, and our market share is now at 32%. The same market share exactly a year back when we did the investor presentation after last year's, I mean, '21, '22 fiscal year performance was at 25%. So, we have -- I mean, very clearly gained market share mainly through, of course, our IT engine penetration. And some of our customers is doing extremely well, of course, thanks to them, and electric vehicle penetration.

We continue to win good orders in -- with our customers. In fact, currently, as you all know, we had won, and we are currently in the production stage of the Shine 100, the 100cc model, HMSI is getting bigger. So that is currently also getting some good bookings. So, we are hopeful of a good demand out there.

Coming to Slide 19, which shares the EV story, our market share is -- in Q4 has gone up even higher to 80%. And we are there with every top player, Ola of course, as you know, is 100%, because TVS is 100% because Ather, Ampere and Okinawa also. So, all the top players actually have Gabriel suspension. We continue to do extremely well.

And this slide, which is Slide 20, this was new for it. We have selectively chosen this e-bike because, one, there is a huge growth of e-bikes predicted to happen in the European geography, particularly owing to all the climate activists and more and more sensitization of each and every individual, which is actually a good thing. The growth of e-bikes is supposed to continue at the rate of almost 20% in the European market, which is a very high growth area.

Here, we have developed the first front fork and given it to Hero, the Hero Cycles. And they are exporting it to their German arm. So, we have dispatched the first lot and we are, of course, awaiting the performance and the feedback of the model in the market. And we intend to develop this further and look at some other options as well of supplying to some good e-bike makers. So, this is a good new chapter and ensuring that our portfolio further is diversified and is in line with the environment initiative. So, we do not miss on bikes, which are growing due to the sustainability improvement that is happening.

Coming to Slide 21, which is passenger cars. Again, here, we saw a market share increase compared to last year. All our SUVs, which we're supplying to Maruti and being shared by Honda, that is doing well. We also have got a good order from Tata Motors. And Volkswagen, we have started supply 100%. So that is also improving. All models of Volkswagen and Skoda, which are being made in India are being supplied by Gabriel now. So, we'll see improved volumes going further. And Mahindra, of course, the XUV700, which is going extremely well in the Thar, both continue to do well.

This is the utility vehicle. This is Slide 22. You can see all the utility vehicles, which are shown as pictured here. The point is our traction in utility vehicle is very strong, and that is a segment that is growing in the passenger car space. So, we are in the right space at the right time. Maruti Jimny has recently been launched. So, the early information that we have is the bookings are good. So, we'll have to see how that performs.

Slide 23 is on commercial vehicle, where we are practically the single source to the entire country, and we continue to work with every OEM supply, all the varieties just in time as the OEM desires. And that continues to be a good strong goal for us.

Railways, I always mention that this is -- while the growth is still not there, we are still not back to pre-COVID levels. But the good part is we have now expanded into high-speed trains and locomotives where we were not there earlier. So, this is a good development. So obviously, when the volumes do start growing, we are ready for products.

Slide number 25 is in aftermarket. Again, here, I already mentioned on the good growth that we had compared to last year. We are once again kind of relaunching the tire and fuel business. And again, the sales have been good in the past couple of months, so we hope to build on this. The new relaunch that we have done and capture the start especially -- rather mainly in 2-wheeler and 3-wheeler segment.

The M&A part, which we have been telling that we are working on a couple of them. One did not come through, but one which is very important and very significant, and a very high-growth area has come through, which we already shared on our call on May 10. This is Inalfa Roof Systems, the number 2 player in the world for sunroof systems. We have got the order from Hyundai and Kia. So, we are setting our plant in Chennai. And we already have a lot of interest from all the other OEMs to look at developing their sunroof and supply. So yes, we'll have to, of course, first cater to Hyundai-Kia and build on it.

But again, just to mention that it's a right product, and there's only 1 other player. So, we have a second more. So, we'll get good traction in this high-growth area.

Then coming to technology, we continue to reinforce our technological development. As you know, we have opened a new tech centre for 4-wheelers and commercial and railway in -- with a small test track as well in in Chakan. So that is doing well. And we also hired a couple of expats who are experts in electronic suspension.

So, we have developed that first electronic suspension semi-actor, which is quite good. I mean, initially, I did drive it myself last week and the response has been really good. I mean the product is really good. We'll be offering it to OEs very shortly. We are expecting some good movement in that space as well, which was not -- which is a blank as regards to product portfolio. Now we filled it up.

We have 60 R&D specialists and we have filed 75 patents. So that's also a very good indicator of our commitment to technology. You also know that we are amongst the highest spenders in R&D within the Indian auto components, and we continue to do so. The Board remains committed towards this initiative.

These are some pictures of -- on Slide 31 and Slide 32, we have already discussed. So, I would end the presentation part here and we are open to questions and comments on your inputs. So over to you. Thank you so much.

Moderator: Thank you. The first question comes from the line of Mumuksh Mandlesha from Anand Rathi. Please go ahead.

Mumuksh Mandlesha: Just on the financial first. Gross margins were lower sequentially. Any reason for decline, sir, this quarter?

Manoj Kolhatkar: Can you repeat the question?

Mumuksh Mandlesha: Yes. So, the gross margin was lower sequentially this quarter. So, any reason for decline, sir?

Rishi Luharuka: In particular, it's only some changes in the product mix that causes that decline. But if you look at the overall perspective, including the other income, the profitability is better from the previous year.

Mumuksh Mandlesha: Got it. I mean there's no major change in R&D costs, right, in terms of increasing RM costs?

Manoj Kolhatkar: Increasing which costs?

Mumuksh Mandlesha: RM?

Manoj Kolhatkar: No, no, no.

Mumuksh Mandlesha: And sir, how do you see the demand impact on the E 2-wheeler volumes post this same subsidy reduction. Any indications from the OEM, how they plan to -- I mean, look at the production numbers?

Manoj Kolhatkar: Well, I mean, obviously, there'll be a little bit of correction. But what we already have spoken to OEMs. In fact, many of them have already -- like is only logical, you cannot make your business case purely on subsidies. So, everybody has actually -- everybody knew that the subsidies at some points of time are going to be tapered down and even at some stage withdrawn. So, I would say that Ola is definitely -- that's 1 OEM that we had have feedback. They said that they've seen it earlier only, and they don't see any change in demand as far as their product is concerned, and you can see by the numbers that they continue to do well.

Because it's finally -- even at that price, it's still a compelling proposition as more and more people use EVs, the shared comfort, the low cost, 0 maintenance, and the features, they become so compelling that the people will only shift and gravitate towards more and more EVs. Cost becomes -- is not a key driver. Cost is surely a driver when it comes to rural segment. Anyway, in rural segment, the EV traction is yet to pick up under the high-speed wheelers. So, I don't see any big -- there'll be some immediate reaction, but I don't see any big change in terms of the demand.

Mumuksh Mandlesha: Got it, sir. This is related to sunroof and the initial investment which we are making. So, what are the components initially companies will be localizing? And what would be procured from the other suppliers? And related to that, just to get a sense on the sunroof industry. Like how many OEMs would be currently importing this sunroof? And will this be supplied by the current local supplier?

Manoj Kolhatkar: I didn't get your first part of the question. Can you repeat that first part?

Mumuksh Mandlesha: So, I mean, related to the sunroof investment which we are making initially, which part of sunroof we would be localizing by yourself? And what would be procured from other suppliers?

Manoj Kolhatkar: So yes, so sunroof, of course, we have made, again, a detailed pan of localization. The glass, of course, we'll be buying from the local glass makers. So that's 1 big part that we'll be localizing soon. And yes, there is also a value addition that is done in-house in terms of the PU encapsulation. So that -- for that, the machine is already ordered, and it should come in the month of July or August. So that will also be good value addition, which is localized. And it will be a localization as far as the OEM is concerned naturally, there will be significant items, A category items being localized.

Your second question was how OEMs are currently buying it. Many are still importing. There is only 1 player, Webasto of Germany who has a shop -- I mean who has a plant in Pune. They also are opening a plant in Chennai. So, we will be the second player who will be opening up the sunroof systems in India. So, the demand is very good. The traction you know that people want only the high end with the sunroof as far as their SUV is concerned. So, we see enough and more demand and OEMs very keen to localize this part.

Moderator: Next question comes from the line of Priyaranjan from HDFC AMC. Please go ahead.

Priyaranjan: Congrats, Manoj and Rishi. So, my question is 2, 3. One is on the market share front. So, 1 is you have gained meaningful market share in 2-wheeler. And what do you see the scope if the electrification continues to ramp up and with the new order wins, etcetera. So, in next couple of years, where do you see the market share in 2-wheeler, 3-wheeler as well in passenger car segment going forward?

That is my question number 1. Question number 2 is on the suspension part on the technology front. So are we looking more for, say, predictive suspension and all with the more electronics and motors controller, etcetera. Is that one of the areas where we should focus on? Or is the company at least looking at those areas to foray into going forward? And third part is, if you --

I mean third question is mostly on the you have mentioned about the core 90 cost reduction program. So, if you can highlight some of the features and the outcome you expect out of that?

Manoj Kolhatkar: Okay. Thanks. Firstly, thanks Priyaranjan for the compliment. Thanks to the entire team of Gabriel. So, coming to your question on market share, we've seen some good improvement as I shared with you with the figures in the slides.

Two-wheelers, we are at 32% so we would -- I mean, this is also a mix of electric vehicles, but within electric vehicles, which is a high-growth area, and we are at 80%. Yes, obviously, retaining 80% market share is going to be a challenge -- naturally being the first mover we have this advantage now. So, we are working on continuously looking at some even technology improvements within this space so that we are able to give some unique USP to the EV and sustain this market share going forward.

In ICE engines 2-wheelers, I think in 2-wheelers, we were rather our key customer HMSI -- I mean, it has a very good relation and impression with Gabriel. We won their award recently in the vendor meet -- in fact, we were also asked to present to the entire vendor forum in the vendor meet this time. So just to say that the relationship is very strong. So, they have given us this motorcycle model of 100 cc, which is a commuter segment high volume segment for HMSI on 100% share of business basis. So, this is the first time that they're doing 100% business share.

And TVS also is going strong, similarly. So, Suzuki also is doing well. We have recently won the Suzuki Electric 2-wheeler business, a new model that they're going to launch in 2024. For that they've already nominated us. So that will improve our EV traction further. So overall, yes, this market share from what we are at 32%, including EV can go more towards 40-plus percent.

And coming to passenger car we are at 23%, and we have clear plans of going to 30% plus in the passenger car as well. 3-wheelers, we continue to be a dominant player -- and it's a preferred -- it's a very strong brand in the market. So there, again, I would say, more or less 60% market share in 3-wheelers, in ICE as well as in EV, we are already with Kinetic, we are already with Bajaj, and we are already with Mahindra Treo, we are already quite well entrenched even in the EV 3-wheeler space. So that's on the market share. Your second question was on the technology. So good question. So, in fact, we are right now working on semi-active. So semi-active is as far as the industry is concerned, the semi-active itself is a very good proposition and a big cost increase compared to year passive.

Fully predictive is a long way away. Fully predictive is offered in very, very limited models even in Europe, which is the most developed market in the world. Just to share, if you see, let's say, the Mercedes GLE the SUV over a INR1 crores. There you get a fully active suspension even in Germany at an additional cost of EUR 5,000. So. you have to pay an additional premium when you book your car if you want to fully predictive suspension.

So, it's a very high-ticket item. I don't think that will be coming to India. So, while it's a good technology to have, and we will look at developing, but it's not -- as far as the immediate plans are concerned. We are developing our semi-active, which is, as I already mentioned, is going on the right part. And we expect to introduce in some of the OEs at the earliest in India.

Now your third part was Core 90. So, I'll let Rishi respond to the Core 90 initiative.

Rishi Luharuka: Hi Priyaranjan, good to talk to you. So again, Core 90 being something of 2 prongs. One is to sustain the kind of cost that we have and in order to sort of match the inflationary pressures of salary increases and other cost increases, we have to do the year on it, maintain the efficiency of that. So previous year, went into maintaining that. This year, we are targeting a little more aggressive in terms of our core 90 program and which is in line with our double-digit endeavour. So broadly speaking, we are looking at 0.5%, 2% or a little more than that as well under the Core 90 program this year.

Priyaranjan: And just an extension of the previous the technology part. So, if you go from a semi active, I mean from the normal suspension to semi active and then predictive. So, what is the kind of the content increase happens for the OEM or the pricing of the cost? In terms of percentage, not maybe in the absolute number.

Manoj Kolhatkar: Well, it's a big figure. The figure is -- I mean it is actually several times, I'm not able to share the figure right now because it might depend on scope depend on the number of sensors that the OEM wants, they want your EC or their EC usage the configuration also differs. It's difficult to answer that question.

But suffice to say that it is in multiple of the passive suspension. In that -- I mean, getting -- I mean the semi-active was introduced in models is going to put a lot of cost pressure. So, it's not going to be a high volume. But yes, it's a good technology, which is expected, and that's why we're developing this in our product bouquet.

Priyaranjan: Sure. So globally, have you seen the excess semi active is more on say, INR30 lakhs, INR40 lakhs of car or it's more of an upward of that?

Manoj Kolhatkar: Yes, it's totally on -- I mean, I would say 30-plus range of price. So, you can see, even if you see the car being offered to the high-end, let's say, the starting of high-end, delivery of the A class, the C class, and for the BMW 3 series. BMW 5 Series, Audi Q3 and A3, A4, none of them are semi-active.

Priyaranjan: Got it. And just coming to the Sunroof part. So -- now you have got the customer as well, so -- and you have got the technology partner as well. So, have you started the discussion with other OEMs? I mean, because now this is one of the must-to-have kind of features in most of the cars. And I think the penetration from the 20%, it will keep going up. I mean, some forecast is talking about 40%, 50% penetration in 3 years' timeline. So, what is the receptiveness of the other customer beyond, I mean, there existing orders? If you have spoken with them.

Manoj Kolhatkar: Very interested is all I can say.

Moderator: The next question comes from the line of Nikhil Rungta from Nippon India Mutual Funds. Please go ahead.

Nikhil Rungta: A few of my questions have been answered. Just quickly, if you can also share, I mean, say, 3 year down the line, what type of targeted share of revenue you are looking for from passenger cars and then 2 wheeler, 3-wheeler and then from CBR? I mean this is inclusive of we said that we'll be starting sunroofing as well. So, 3 years down the line, where do we see our presence.

Manoj Kolhatkar: Your voice was a little feeble, couldn't get you. Can be a little louder.

Nikhil Rungta: Is it better?

Manoj Kolhatkar: Yes, yes, yes.

Nikhil Rungta: So, sir, I wanted like, say, 3 years down the line, where do we see ourselves in terms of share of various segments, basically passenger car and then 2-wheeler 3-wheeler and CVR?

Manoj Kolhatkar: In terms of our segment mix.

Nikhil Rungta: Yes.

Manoj Kolhatkar: Okay. So, if you see this quarter, like I mentioned, we are at roughly 59, 27 and 12 is what at Q4, we were. So going forward, I would say it will be more towards yes, in 55, 30 between passenger car and 2-wheeler in that range.

Nikhil Rungta: 55 and 30 basically 55% would be passenger and 2-wheeler mentioned.

Manoj Kolhatkar: It was 2-wheeler and 3-wheeler. We report these...

Nikhil Rungta: Two and 3.

Manoj Kolhatkar: Two and 3-wheelers. And hopefully, we should be adding a little small bar on the bicycles, e-bicycles also. Of course, numbers are too early to say, but hopefully, yes, we should be able to add some.

Nikhil Rungta: Okay. Okay. And sir, we have also started focusing on international geographies. So, in terms of export and OEM as well, if you can give what type of share you are looking at, say, 3 years from now?

Manoj Kolhatkar: Export right now, we've like -- if you talk of Gabriel exports, we are doing just about 4% as a total -- so we have always told that we want that to be in double digit 10%. So, we are working on the technology, the semi-active which we are developing, obviously, will be more and more traction might be there in developed markets. So, we still maintain that is our aspiration and target of getting to that figure.

It will take time, though. I mean, do export breakthroughs take -- will take some time.

Nikhil Rungta: Got it. Sir, last question, if you can just throw some light on railways part as well. I mean how is it moving now. Last quarter, you indicated that things are moving slow. But how is it now and where do you see?

Manoj Kolhatkar: What part?

Nikhil Rungta: Railways.

Manoj Kolhatkar: Railways. It has improved. I mean -- but the recovery is still -- and the figures are still not near the pre-COVID levels. I mean still there is a very small growth that we are seeing there.

Nikhil Rungta: Okay, okay. So, it won't become a big share in our revenues.

Manoj Kolhatkar: We don't expect that. But yes, we now also have the developed the locomotives, which were not with us. So that should add, of course, some time, yes.

Moderator: Next question comes from the line of Chetan Gindodia from AlfAccurate Advisors. Please go ahead.

Chetan Gindodia: Hello, sir. And congratulations for a very good set of numbers. I just wanted to understand last 2 years, we have seen very sharp improvement in market share and thereby very strong growth ahead of the industry volumes -- so going ahead also, given that we have higher share in the leading models of Maruti and also Volkswagen and Mahindra and also good share in, should we see mid-single, mid double-digit kind of sharp outperformance over the underlying industry volumes?

Manoj Kolhatkar: Again, so yes, we are seeing that improvement we are basically, as I said, coming to passenger car, we had the right products in the SUV segment, and which is growing. So that is helping us. Yes. So, I mean, clearly, we -- the target is to outperform the industry ahead of the industry in 2-wheelers to improving our market share in EVs, which is happening in PC through SUVs and also getting into EVs. We still are not on EV at first. EV in passenger car is the Citro, you know, EC3, which has been launched. And we are also working on a model with Tata Motors for an EV platform, which will be in 2025. So, with that even our passenger car market share will at least continue to be ahead of the market is what is the plan.

Chetan Gindodia: And sir, on the margin side, we are aspiring to be double-digit margin. And then you had also alluded in the last call about increasing competitive intensity also -- so even all these scenarios out, should we expect improvement in our EBITDA margin going ahead into next medium-term? And what are your aspirations about it?

Manoj Kolhatkar: For sure, I mean that's the plan I shared that Rishi also shared on the Core 90 and several things that we are doing. So, a clear plan is to improve EBITDA going forward in this year itself -- and aspiration is yes to move into double digits that may take some time. But in this year, itself, we are working to improvement of EBITDA for sure.

Chetan Gindodia: Okay. So, we should see a 50 to 100 basis point improvement, that is what might be our expectation.

Manoj Kolhatkar: Sorry but likely I've always said we won't give that specific guidance, but yes, I can tell you on improvement, yes, you will see that.

Moderator: Next question comes from the line of Viraj Kacharia from SIMPL. We have lost the line. Next question comes from the line of Mr. Pankaj.

Pankaj: First thing, I just wanted to know the order book for Vande Bharat is out and we've been the market leader in the suspension. And as I understand, Vande Bharat train costs around INR120-odd crores as per the tender. And this the railway minister has time and again showed the efficacy of the suspension, which has been implemented in the train. And as we have 80% plus market share in railways. Are we a vendor to these, I mean, railways or the companies which are developing these trains? And secondly, in the same the cost is INR120 crores, and you had earlier mentioned that each train, whether in LHB bogies, which we used to supply, there used to be 16-odd the suspensions instead of 4-odd which were used by -- in earlier trains. So just wanted to understand what is the total addressable market for us and whether we are present with these producers or manufacturing of the train or not?

Manoj Kolhatkar: So just to answer your question, so on the railway, we have 2, got our 3 new orders that we've got. But these are development orders. We still do not have the bulk order that will come through once the development orders got it and performs well, which is what I mean, we are expecting should not be a problem. After LHB, which had 18 shocks, 18 Shocks per coach, we have now in -- train 18 we are also into the electric locomotive, and we are in the Vande Bharat. So, all these 3 are new additions for railway family.

And each of this has 20 dampers to a coach or even to a locomotive. So, there are 20. So, the figure of 18 becomes 20. So, to that extent, there is increased content per coach. Now the tendering we're still not in the production space. So, we -- I do not give a figure of that as of now. But on the tendering part, it is again shared between various players. That's how it will go.

Pankaj: Sir, if 1 train cost around INR120 crores, there are 16-odd coaches in each train. So can I -- and that does the value of each coach would be around INR7.5 crores to INR8-odd crores. So can we assume as and when it is manufactured, can you assume -- and this suspension being a critical part of the right quality out there. So can we assume substantial share of the INR7.58 crores per coach as a sort of addressable market share for suspension maybe, say, around 50 lakhs to a 1 crore per coach.

Manoj Kolhatkar: Certainly no. The biggest ticket size in a coach is the rolling stock and then the braking system, and then the electricals that are there and of course, the air conditioning and the door system. So largely the big-ticket items are these. The suspension is not in the space. But yes, the value per coach of a suspension is significantly higher compared to, let's say, what we give in passenger car, etcetera.

No doubt about that, but it is nowhere near crores or something that you mentioned. While it brings a good bottom line, but a volume point of it still very small. And now that we gave this almost 3,000 crores, it still is a very small part. So, we that we don't even report it in the segment. It's quite small.

Pankaj: Second question regarding the margins. If you compare our top line somewhere in FY '18 or '17, I suppose. We had a top line of INR1,500-odd crores and PAT of around INR156-odd crores. Over a period of time, you have practically double the top line, but our PAT has just grown by 33%. And in this period, we have implemented the Core 90 program. It seems that the whole program, though it was a success, but it has not contributed anything to the bottom line.

Manoj Kolhatkar: It is a good observation, but like we told you the commodity increases have taken away even if we do a simple, even if we get our full compensation, they have taken it almost 2.5% arithmetically. If you look at that in terms of the growth. So, figures, if we had not done the Core 90, figures could have been much adverse. The Core 90 has never helped in terms of not slipping. And like I mentioned, now we are looking at programs to improve margins, which we are seeing for the last 3 years there is an improvement at the total year if you see. So that should continue.

Pankaj: So, can you expect anything in the near-term?

Manoj Kolhatkar: Yes, like I mentioned in this year itself, while we don't give any guidance on figures, but there will be an improvement in EBITDA for sure.

Pankaj: And my last question, if I can, if I may, please. Why are we entering the tyres and tube segment? I mean this is another commodity, which I think we are diluting the value of Gabriel brand by entering this segment.

Manoj Kolhatkar: Contrary to that the brand is -- that's why if you see, we have not selectively chosen the segment. We're not going into the commercial vehicle and the passenger car, okay? So, we are only going into 3-wheelers and 2-wheelers. Particularly 3-wheelers where our brand name is extremely strong.

So, in fact, it adds to the dealer overall product basket. And they have a wider range to offer as far as Gabriel is concerned. And tire also has been chosen because it is around the suspension. It's a part which is distant from suspension, it's an adjacent part and both kind of play a role in each of this performance. So that's why tyre certainly does not dilute the brand. We have selectively chosen this segment, and the pull from the customer also is good.

The other part is this is the only part a tyre that is sold over the counter. It's not like you have tire sales shops only doing that, like passenger cars. Over the counter any retailer is free to sell and recommend the brand. So that's why we have chosen this segment. And as I said, it's doing well. So, the idea is we have a strong brand name. We need to leverage the brand name. Again, carefully choosing not bringing everything and maintaining the quality. Your question is very right. When it comes to maintaining the quality, so we have carefully chosen the supplier, we do quality audits. We have engaged advisers who have been from the tyre industry, very, very seasoned people to ensure the quality is maintained.

Pankaj: So how much is the capital employed for the same?

Manoj Kolhatkar: Practically zero, this is a very nominal for the tyre model, but practically 0. So, ROC point it's an excellent quality.

Moderator: Next question comes from the line of Dhiral from PhillipCapital.

Dhiral Shah: So, my question is, again, regarding to the Core 90 program. How much of the benefit of Core 90 initiative, according to you, is reflected in FY '23 margin?

Rishi Luharuka: It's 1% to 1.5%.

Dhiral Shah: Okay. And sir, how much of the cost inflation you are able to pass on to the customer, as MD sir said that we have been impacted by almost 2%, 2.5% because of the rise in the cost of raw material. Sir, how much we have passed on to the customer? And how much you are expecting in FY '24?

Rishi Luharuka: Commodity pass-through is almost 95% in our case.

Dhiral Shah: So, we have fully passed on whatever the cost inflation we have seen until date?

Rishi Luharuka: If you do the calculation, the mathematical impact of commodity in the previous year is almost 1%. Even if we do 100% pass-through, the margins would go down because of the mathematical denominator effect of 1%.

Dhiral Shah: Okay. Okay. And sir, on the sunroof business side, as MD sir said that we are looking to localize A categories of item. So how much this contribute to the total RM basket?

Manoj Kolhatkar: So, you're talking about sunroof, right?

Dhiral Shah: Yes, sir.

Manoj Kolhatkar: So obviously, I'm certainly not able to disclose that, but we are going by first, the glass because logistically it's also a big item. Cost-wise also it's a big part of the RM. So, it makes sense to localize the glass first and some other parts. And we have drawn a detailed plan of localization in over the next 3 years because we have done in phases. There is validation also. So that's what it is.

Dhiral Shah: Okay. And sir, what is the capex for FY '24 as our business as a whole?

Rishi Luharuka: We targeted 150 -- cash flow should be in the range of 100 to 150.

Dhiral Shah: Sir, this includes this sunroof also, or you're talking about Gabriel only stand-alone?

Rishi Luharuka: Excluding sunroof.

Moderator: Next question comes from the line of Shashank Kanodia from ICICI Securities. Please go ahead.

Shashank Kanodia: Just wanted to check, are we present with Simple Energy, which launched electric 2-wheeler yesterday evening?

Manoj Kolhatkar: Simple Energy, I don't think so. I don't think so what -- actually, we keep tracking. I'll come back on that because there are so many 2-wheeler EV manufacturers. So -- over 200 of them. So, we are actually carefully choosing the ones that we actually develop, because we also do kind of check on the -- I mean, kind of due diligence also on the makers. Otherwise, there is a huge amount of development effort that goes. So Simple Energy -- we are making samples for them, but I don't know that's -- in the model that has been shared yesterday.

Shashank Kanodia: Okay. And secondly, sir, early in the calendar year, there was Mint articles mentioning about the front forks taking a knock off at Ola electric scooters. So just wanted to check, are we at fault by any case? And Ola has offered to replace it free of cost for the customers. So, are there any financial implications for us?

Manoj Kolhatkar: If you read the article, it came -- there's a clarification also which came in Mint, so it has clearly said that the fork arm is what that failed. It is not the front fork suspension. Unfortunately, when we talk about fork, everything comes to a front fork. So, it's a casting, which connects the front fork with the wheel, which is bought directly by Ola. We don't supply this part to them or to anybody. It's not our scoop.

Shashank Kanodia: Understood. So, we are not at fault by any chance.

Moderator: Next question comes from the line of Devang Patel from Sameeksha Capital. Please go ahead.

Devang Patel: Sir, my questions are around capex. What is our peak revenue potential from current capacity? And for the next 2 years, what kind of brownfield or greenfield expansion we need to do, which will give us what kind of asset turns?

Manoj Kolhatkar: So, we're planning some brownfield both in Khandsa and Chakan, getting some minor expansions. I mean these are maybe this INR20 crores odd, INR20 crores, INR30 crores odd. But in terms of capacity in machines as well as also increasing the store area, LG area, etcetera. So, increasing the land and the building because we already have land. So, these are the things that we are planning in terms of brownfield.

Greenfield, yes, looking at the growth, we surely will have to add a plant in the right geography. We are evaluating the geography, but let's say, in south, while we are in wholesale, we don't have anything in Chennai region. So that is one area. And we are also in the Sanand Gujarat area. We had a plot of land in Tata Motors vendor park. So, we are also now taking in the adjoining plot as well. We are in discussion with Tata Motors based on the business that they offered. That will be some additional, you call it, well it's brownfield or greenfield. It's an additional plot, so adjoining plot, yes.

Devang Patel: So, what is our peak revenue potential from current capacity?

Manoj Kolhatkar: Well, from the current capacity, we easily -- I mean, it's close to INR4,000 crores, a little less than INR4,000 crores. And this is not including the sunroof. Sunroof is different.

Devang Patel: This new greenfield, we'll get what kind of asset turns from that? And what would be the tentative size?

Rishi Luharuka: So, Devang, again, the asset turn in the first year, obviously, is going to take a little bit of a hit as compared to 6.6 that you see currently. But with its peak utilization, I would safely assume that in the range of 6 an asset turnover should be a healthy one.

Devang Patel: Okay. Sir, and secondly, on negotiating with our OEM partners for price increases. Now we've already hit 31%, right, in FY '23. Does that somehow dilute our negotiation efforts?

Rishi Luharuka: Devang, we didn't get the question. If you can repeat.

Manoj Kolhatkar: What about 31%? It's a...

Devang Patel: We already have reached 31% ROIC with these margins. Does that somewhere hinder our negotiation with OEMs on getting price increases?

Rishi Luharuka: Yes, that's still especially, we have got price increase back-to-back on the RM. So, most of that is done and concluded, practically everything. So, we are also, of course, looking at some process cost increase because everything has gone up, including power, fuel, I mean, wage costs, etcetera, the minimum wages, etcetera. So, we're also looking at some process cost increase with OEMs. Those discussions are still in process.

Devang Patel: Okay, sir, and on Sunroof, what will be our outlay in terms of equity? And when do revenues from that JV start?

Rishi Luharuka: The revenue is proposed to start from the first quarter of the next calendar year, which is the Q4 of the current financial year. In terms of the share capital, we are looking at in the range of INR50 crores to INR60 crores.

Moderator: Next question comes from the line of Viraj Kacharia from SiMPL. Please go ahead.

Viraj Kacharia: Yes, so basically, first question is on the gross margin. Now if you look at our mix broadly in terms of business, say aftermarket or the export piece or even the CV, railway. These are typically in terms of margins hierarchy; these are the highest margin businesses for us. And in the year, they have done quite good. In terms of share increases also, there's been a healthy increase.

Similarly, in terms of EV, in, say, 2/3 wheelers, where the value addition or the margin structure is really, better. That's also seen a really, healthy flow for us. But when you look at the gross margin for the year and especially, if I say even in Q4, we're still around that 23.5%, 24% band. So, I understand the numerator-denominator element.

But just purely in terms of the margin structure, when you say that 250 basis points is the gap, what will drive that gap? Because the mix is already in your favour incrementally for the last few quarters, we're already seeing the RM softening or stabilizing. So, from a contribution margin perspective, how should we understand the journey of say 250 or 300 basis points increase? And what will that entail for us?

Rishi Luharuka: So, there are good question. To sort of summarize it in a simple form, let's look at 80 to 100 basis points on the operating leverage and the remaining should come from the gross margins. And gross margins will have various levers, including Core 90, which is renegotiating with suppliers, renegotiating with customers on some price increases.

It's also to do with some softening of commodity, having a full year effect now given that last year does not have the softening for the full year, and we still saw a lot of increases coming through. To the extent of 0.8% last year, the commodity impact was there on account of denominator. And around 0.2% on account of under recovery because of the other businesses where there is no 100% indexation.

So those benefits are going to come in this year as well as we are looking at some product mix changes as well, which will help us support the improvement in the gross margins.

Viraj Kacharia: Just to add further on this now, if you look at our localization, say, in the passenger vehicle segment or a 2-wheeler. And this is in relation to -- if you look at the contribution margins, which some of the other competitors stay on, say, in a PV by Tenneco, or you have other 2-wheeler MNC and local payer. Even after this improvement, which we're expecting, it will still be a sizable amount of gap versus what they earn and what we earn. So, is it -- is this scope in terms of further localization, increasing the value addition in the existing business structure? So how are we thinking on those lines?

Rishi Luharuka: On the -- see on the passenger car side, we are competitive. If you were saying about Tenneco, we are aware of the numbers to some extent. Again, everything is known to us. But -- and we compete in the same market. So, we are fairly aware of what kind of numbers do they work with. And I must say that we are better than that. Yes, in terms of 2-wheeler, 3-wheelers, 2-wheelers, especially, we have some scope of improvement, and that's where we're going to sort of look at maybe a backward integration in order to reduce our overall cost.

Viraj Kacharia: Okay. So, in terms of the base margin, I'd say, the contribution level for this business -- suspension business for us, after all the initiatives and if RM prices remain stable, then that should be somewhere around, say, 25%, 26% level. I mean, indicatively, I'm not saying by then or it also depends on a lot of other elements. But generally, in terms of -- if I have to just understand the base margin in this business for us, given the mix and everything...

Rishi Luharuka: Viraj, again, we answered this question already, given that we are looking at 2%, 2.5% and of which, say, assuming 0.5% to 1% operating leverage, the remaining should come essentially from gross margin.

Viraj Kacharia: And second question is on the capex, which you said is around INR150 crores for this year. Correct me if I heard it wrong. That will be including the INR50 crores investment, which we'll be making in the JV, right, sir?

Rishi Luharuka: No, that is excluding that.

Viraj Kacharia: Okay. So, this INR150 crores is primarily towards what major buckets? I mean if you can provide some perspective.

Rishi Luharuka: Give and take, we do INR30 crores to INR40 crores on routine maintenance capex. Remaining will be in the field of technology, number one. Number two would be automation. Number three will be backward integration. And number fourth would be the capacity announcement as and when required for specific programs.

Viraj Kacharia: Okay. So even in this year, I think there was some INR13 crores of purchase of intangibles. So, from -- I'm assuming there is pertaining to the technology, which we have acquired?

Rishi Luharuka: It's not technology acquired. It is towards the technology that we are developing.

Viraj Kacharia: Okay. So, post these investments, in the past, we talked about having some gaps in terms of technology versus, say, some of the MNC competitors. So, post these investments, would we, by and large -- how should we look at our overall portfolio coverage versus some of these competitors?

Manoj Kolhatkar: Yes. So, it will -- definitely, as far as technology is concerned, we will close the gap on semi-active, but having said that, we also -- the passive suspension also still remains the main scale business. We'll have to continuously keep working on newer technologies, like we introduced the FSD on Mahindra XUV 700, which has been received very well. We're going to continue to work on passive.

And the second part is, while we will fill up this technology gap, the important gap to be filled also is with respect to global business is getting -- acquiring global customers, which is why we are also investing in hiring of expats. We already done that. With that, we'll open up some global customers as well. So, we'll then close both the technology gap and global customer relationship gap.

Viraj Kacharia: Okay. And last question was on the cash part. So, despite the capex or the investment, which we'll be putting in the JV, the cash position will just keep on building up. Any thought process on how we are looking to use that? Any thoughts on the buyback or the distribution, dividend distribution policy?

Rishi Luharuka: Look, Viraj, we've been wanting to have the inorganic fees come live, which we have now done with one of the JV. The target is to pursue this journey further, which is the largest utilization of the cash balance, we may need to even lever if the target size is big. Second is on the organic growth that we already have, including backward integration. Certainly, the cash flow generation for the year would be utilized towards that. The way I see it, from this build-up is going to be healthy in terms of giving us an opportunity to look at a bigger ticket size in terms of organic.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Manoj Kolhatkar for closing comments. Please go ahead.

Manoj Kolhatkar: Thank you. So, thank you once again for those interesting questions, and feedback and some compliments as well. So, we will continue to, of course, increase and improve our market share to stay ahead of the market, in summary. And glad to, of course, share the new diversification that we have done in sunroof. We are all very excited about it. Clearly, this gives a whole new energy in the entire system.

And just to say that we have -- this is the first significant move that we have done, and we will continue to scan for a positive. It's not this is one-off, but this is part of a larger strategic plan. And we will continue to work on this, and hopefully do come up with one more in this fiscal year or next fiscal. So that's on the diversification part.

As regards to the industry, I've already shared this year will be little more muted than what we saw, I mean, the high growth year last year. Nevertheless, it's a growth year. And overall, the economy of the country is in good hands and looks to be on the path of growth only. So, we don't have any immediate reason to worry as regards to the overall economy. So, look forward to a good year and your support, as always. Thank you so much, and that's all from my side.

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