"Gabriel India Limited
Q1 FY '24 Earnings Conference Call"
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Moderator: Ladies and gentlemen, greetings and welcome to the Gabriel India Limited Q1 FY24 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.

Currently, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star and zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Manoj Kolhatkar, Managing Director from Gabriel India Limited. Please go ahead, sir.

Manoj Kolhatkar: Thank you. Good afternoon, everybody. This is Manoj Kolhatkar. And along with me, I have Rishi Luharuka, our CFO, and Nilesh Jain, our Company Secretary, as well as our Advisors, SGA, joining on this call. So, I hope you're all doing well, and you have had a chance to go through the results that we published on our board meeting day on 14 of August. And I'll just give a brief overview of the company's operations and take you along the slides of presentation.

So, starting with slide number five, which is the financial highlights slide. I'll just read the title so that we are all on the same page. This is financial highlights of the first quarter, April to June 2023. We had a revenue of Rs. 805 crores, which is the highest ever in a quarter that we recorded. This is of course, in the back of some good overall automotive industry volumes. And I'm glad to share that we did EBITDA of 8.6%.

We'll come to that later, but we have taken the EBITDA upwards, as we have been discussing on several calls in the past. And obviously, the PBT has the same impact of improved EBITDA. So, year on year, if you see, the revenue grew by 11% and the EBITDA grew by over 30%. So that is the kind of cost control that we have been able to do, mainly through, as we had discussed in several calls earlier, through our CORE 90 program, which is a cost reduction 90 days program.

The PV, just to talk on the different segments, the passenger car segment witnessed a 9% year on year increase in sales during the first quarter. The quarter continues to see strong order book on inquiries, improvements due to, you know, obviously seen in the semiconductor supplies as well. Though not entirely gone away, but there's a clear improvement. So that's why, you know, the volumes are more predictable as well in the passenger car segment. And of course, the introduction of many new models that we have seen.

Further, due to a favourable monsoon condition, still so far, I understand that, you know, this last week has been a little low in terms of Monsoons, but there is still time to go. But overall, this has increased the farm income and rural demand for PV has also increased noticeably.

Coming to commercial vehicle segment. Sales in commercial vehicles fell by 3% in the quarter. This could be attributed to many people doing a pre-buy because in the month of April, we all know that we had to implement the BS-VI phase 2 regulations and the OBD2.

So, both the two-wheelers and the passenger cars were smaller extent because they were already geared up for OBD2, On-Board Diagnostics 2. But commercial vehicle did have an impact, so there was a kind of pre buy that happened in the previous quarter. That's why we are seeing a little bit dip in this quarter. But despite this, the commercial vehicle remains optimistic with growth expected to continue. This is bolstered by the ongoing infra development in the country and robust economic activity.

Further advances in Last Mile connectivity and improved e-commerce are expected to strengthen the commercial vehicle supporting future demand. So, this we are clearly seeing more demand in the higher tonnage vehicles and on the other side the smaller commercial vehicles due to mainly the Last Mile connectivity and e-commerce you are already now. Our two-wheeler sales increased by 11% in Q1 compared to the same quarter last year. So that is some good news, of course.

Although the sales are nowhere near what we did in 18-19, or let's say the best year. I mean, that was the best year, 18-19. But there are indications of a resurgence in rural demand, aided by the availability of more accessible financing options, introduction of new vehicles, and all these price increases having been, to some extent, digested by the market. And we are also seeing a very good growth, particularly in the premium category, and a robust replacement demand.

A key catalyst driving a recent momentum in EV was the FAME subsidy, we all know, which resulted in a huge surge, particularly up to the month of May. And in June, we saw the subsidy being taken away. So obviously, in terms of electric two-wheelers, this did impact the industry and the volumes fell by 50%. Of course, here again, May was a pre-buy story, so people did buy over a lakh of two wheelers, but in June and July, the volumes have dropped to almost 50,000.

We'll have to see how this pans out, but yes, the OEMs are taking this challenge and introducing newer models which are more cost efficient. We have seen some of those launches already. The three-wheeler has increased tremendously due to opening of the entire economy, opening the country, if you ask me, opening up our own minds to shared public transport. So, we have seen 89% increase in three wheelers. In Q1, this segment had its third highest sales. This is again mainly due to the short distance commuting, which you all know. And the electric mobility in this space, again, has seen a great traction. And that continues to grow, as was seen even last year.

With the new launches planned, we are seeing strong growth in ICE segment. While there's a lot of talk on EV, rightfully so, but even there are some good ICE products being introduced and conditions being launched by OEMs. Gabriel is well positioned to meet the rising demand for all these products.

Our R&D investment prioritizes new products and portfolio expansion. We are committed to increase market share to gain new customers and will be sharing when we come to that slide. Customer satisfaction and adaptability continue to drive our outperformance in the auto industry.

Having said, given this brief backdrop of the industry, I'll get back to the presentation, to slide number six, titled Financial Highlights. The revenue, I already mentioned, grew by 11.8% year-on-year, and even on the quarter-to-quarter, it grew by almost 10%, and EBITDA grew by 35.7%, so almost 36% on a year-on-year basis.

And if you see on a quarter-to-quarter, it grew by 32%. The balance sheet position also is healthy. We have a net cash of INR323 crores. And capex, which we incurred, was almost INR14 crores, mainly towards R&D investments and some capacity increases. And this is the main capex that we incurred. Also, for some technology improvement that we did in our process like installing or increasing our robotization in one of our plans.

Coming to slide number seven, which is the track record, it's pretty much the same figures in a different format, so I'll not spend time on that. Slide number eight is the quarterly performance trend, so you can see the margin uptick in the last, Q1 data point. And ROC also on an annualized basis is, anything as high as 40% currently.

Coming to slide nine, again, it's the P&L statement, so we have already discussed that. I'll move to the trend charts on slide number 10, which are key ratios. Slide 10 is again, 10 and 11 are the key ratios, so I'll skip that as well. But coming to slide number 12, which shows the revenue mix. So clearly, we have seen improvement in the passenger car portfolio. It has gone to 24%, two-wheeler at 61%, and aftermarket at 13%. Which is good news. This balances the portfolio a bit better.

This is mainly due to many of our passenger car launches now, seeing production, so like we have seen the Maruti Jimny, we have seen the, of course, earlier Alto, the new Alto of Maruti, then we have seen also, you know, the Mahindra models doing very well, and a huge waiting list even now, as we speak. So, this has really helped us improve our passenger car share in the portfolio. In terms of channel mix, it's, I mean, of course, OE is 83%.

Aftermarket did improve. I think we have been pushing continuously both the core products, as well as we have tried to put some energy into pushing our tyre and tube sales, which are mainly two-wheeler and three-wheeler segment. So that has also done reasonably well. And exports continue at 4%.

Coming to slide 13 and 14, mainly again on cash flows. We already discussed that. Now I'll skip the earlier slides. I'll come to slide number 20. Our mission, I mean, the vision remains the same of being the global top five. Now, coming to slide 20, which talks about the performance segment wise. So, the first segment I'll brief you about is the two-wheeler and three-wheeler segment.

So here we have seen 61% of total sale and 32% market share is what we command now. So again, many new launches and we continue to get a good healthy business pipeline going forward. EV, I'll come to that later. But you saw the latest launch yesterday made by Ola, so I'm happy to share that all the models shown, including the motorcycle, is with Gabriel.

So, if you come to slide 21, which is the story on EV, we are seeing 73% share of business in EV two-wheelers and three-wheelers, of course. 3W also we continue to supply to the top leaders in the segment, Mahindra, Bajaj and Kinetic Green. And in two-wheelers, we are there on Ola, Ather, Ampere, TVS, of course Okinawa and Simple Energy as well. This while we have seen a couple of months which are low, our Ola volumes are strong, and we continue to see good pull by the customers. And these new models which we saw yesterday, one model being launched at less than Rs. 80,000. So, we are seeing a lot of push and a lot of pull coming from the customer on this front. Slide 22 is on the new product that we introduced. This is, I shared last time that this is the front fork for the e-bicycles, which are a huge trend in particular Europe, because they're highly environmentally conscious. And this also actually offers a very good way of transport, especially if your infrastructure is safe and good, which is what we see in Europe.

So, there's a tremendous demand of this segment. So, we had exported our first, this is done along with Hero Cycle, so under the name of SPUR. So, they had exported the first thousand pieces and the feedback has been good. Performance feedback has been good. There is feedback on some weight reduction that we have to do, which we're working on. And we will probably look at, again, pushing this and trying to get more customers in, at least get some orders in the next quarter.

We also got in touch with some Indian key bicycle manufacturers, while this is mainly export focused, but we're also looking at, to increase our business within, or at least have Indian customers also buy these products from us now that we make this product.

Coming to slide 23, this is on passenger cars. I already shared that 24% market share is what we have gained now. So Maruti Suzuki Jimny, which again has had a good response. And now we are happy to share that we are already on the E KUV of Mahindra, which did not do very well, but we are now on the Stellantis E Citroen C3. So, this is the second electric passenger car that we have got in our portfolio now.

And in terms of future developments, we have the new platform of Volkswagen. Currently, what we are seeing is the Volkswagen Virtus, Taigun, and Skoda, Kushaq and Slavia. So, these volumes are now doing very well, and the entire business is with Gabriel. And we also already got the business for the new platform, the MQB 2.5.

Now coming to the slide 24, you can see the pictures of all the SUVs that Gabriel is supplying to. And SUV is the growth story, as you all know. Over 50% sale in the passenger car segment is SUVs, and we are well entrenched there. So, you can see the Volkswagen, Skoda, the Toyota Hyryder and the Suzuki Grand Vitara, the Suzuki Brezza, the Mahindra Thar, XUV700, Jimny and of course, you know, what is called as the world-class Mahindra Bolero. So, all this continues to be the portfolio from service by Gabriel. So, it is a strong story.

Coming to slide 25, commercial vehicles. Yes, our market share continues to be almost 90%. Business pipeline also is good. Our story with DAF on exports is extremely well as I shared last time. I'm not sure if I shared, but we got the quality award second year in a row. They have a 10 PPM Award in the PACCAR world, and we have been recognized for that. So that is opening new doors for us, for sure, in the PACCAR world.

But it's been a very good success story as far as DAF is concerned. And now we are working on some, as the Indian CV makers also move or evolve towards higher tonnage vehicles with better comfort, we are also seeing a new requirement for high damping force dampers, which we are already supplying to DAF from Tata Motors as well, and we are currently in advance discussions to close this business order as well.

Slide 26 is on railways. We always tell that this is a very small portion, but again, we are proud that we are the only Indian supplier that has been approved for Vande Bharat. We also added electric locomotive to our portfolio. We have our presence on every product that Indian Railways has, from LHV coaches to Shatabdi, Duranto, Vande Bharat, Train 18 and the locomotives. We are there on the entire spread and we are also exploring now, as we speak, some opportunities for exports. We will have to see how this pans out, but we are putting in focused efforts towards exploring markets overseas for railways.

Slide 27 is aftermarket, which has seen an inching up in terms of the overall size. We are at 14% of the total sales for this quarter. We have been pushing this in B&C class town. We are adding new products. As I said, a specific push was, you know, put on the tyres, and tubes, which is doing well. We are also looking at opening some more new geographies particularly in the Latin America region. And let's see how that goes. But aftermarket continues to be a strong pillar of our overall sales.

Slide 29 is our new company, new JV, which we started with TA as we did mention last time, after our call for the sunroofs. So, Inalfa sunroof, I'll come to the picture, but plant is almost ready. The demand is very strong from the customers. I already shared that we've got the order for Hyundai and Kia, but we already met Mahindra, Tata, Maruti Suzuki, Renault, and MG. In fact, all the customers, and there's a very high level of interest. We had tech shows in Mahindra as well as Maruti recently at the group level, where we had demonstrated this product as well.

we are seeing a lot of interest from customers on the sunroof business, because obviously the demand for sunroofs, panoramic sunroofs in every SUV are almost nearing 70-80%. In some models, they have been saying that customers are wanting 100% sunroof. So really a very, very good product to be. And now we are focusing on getting the plant started. The machines will start arriving in the month of September. They've already been dispatched. So, we'll see the plant filling up in the next month. And starting of the trials also should happen from the end of September for the lines.

And some production we'll see, early trial production, of course, in the month of October itself. Just the pictures of the plant, you can see it's 1,70,000 square feet facility in the Kunnam village of Chennai, which is close to Hyundai. So, you can see it's practically ready to receive the machine, the assembly line and the machine that will be coming at the end of this month or the beginning of next month.

Also, one more important event, milestone that we had was opening of the Gabriel European Engineering Centre. This we have been working for some time now. As you know, we have already inducted the CTO, Mr. Koen Reybrouck, who's from Belgium, an expert in suspension, especially active suspension, for over 30 years. As he's a CTO, and we have been working with him to open a European Tech Centre, because tremendous competence exists in this region and in Europe overall because the customers are demanding these kinds of products more and more in that region. So, we have opened this up near Brussels. This is a facility in Ghent very close to the earlier port plant.

In fact, it is very close to the port proving grounds. So that also helps us in doing our trials very quickly. You can see the pictures of the office that you see on the centre left, is a picture of the actual office that we have currently rented. And we'll be moving to a workshop in the same building. This is the actual picture of the building.

This is not a renting; this is the actual picture. With the blue circle you can see, that is where we'll have the factory. Not factory, it's a workshop. It's called facthory, something to do with that nomenclature, but it's not a factory. It's going to be a workshop, so it will house our office, our engineers, and our test equipment, the hydraulic force to lift the car and fit our suspension, etcetera. from here, we intend to clearly go for the best product in suspension, not only in active, but also in passive suspension.

We are working on next generation evolving technology in close collaboration with global experts in this area. So, it will be a kind of a, co-creation of this, new generation evolving technology with help from the best in the field. This is the picture of our tech centre in Chakan, which is fully functional. You can see, it's state-of-the-art tech centre. And I'm happy to share that, this has been rated platinum as far as the green building is concerned. So, we have a complete solar panel on top.

That's everything about this building. We have ensured that this meets the platinum requirements of a green building company. And this is the way going forward. We had already mentioned about Sanand plant. All our new plants, our offices that will come up, we have decided that we will go for a green building certification. Our Sanand plant is already at a silver. It was a Brownfield plant, which we got a silver rating, and here we got a platinum rating. So, this is our focus on ESG, as you all know. This is a very important part of Gabriel as well as the ANAND group.

We have a formal mission to be carbon and water neutral by 2025 with zero waste to landfill. And I'm happy to share again that five of our locations out of seven are already zero waste to landfill. And we are doing well on the carbon and water neutrality as well, with renewable energy being almost 20% of our total energy consumption. In this annual report, we of course have the BRSR report, which we already published.

I'm sure you must have had a chance to go through our annual report as well as the BRSR report. So that's very quickly, what I have to share as far as our presentation is concerned. And now I would be keen to hear from all of you on the questions and suggestions or any inputs. So over to you, thank you.

Moderator: Thank you. Our first question comes from the line of Jay Kale with Elara Securities. Please go ahead.

Jay Kale: Yes, thanks for taking my question and congratulations team for a very good margin performance. My first question is on the margin side itself. If we see both Y-o-Y and Q-o-Q, a large part of your margin data has come from gross margin expansion. If you just throw some light on what has led to how much of it comes from commodities, how much from mixed change, because if I see a mixed change on a Y-o-Y basis, you have your passenger vehicle contribution going up, but on a Q-o-Q basis, your two-wheeler contribution has moved up. So just trying to get some flavour, how much of it is because of mixed change versus commodities, that would be my first question?

Rishi Luharuka: Thanks, Jay, for asking that question. So, the gross margin expansion is on two folds. One is on the raw material side and the other is on the price recovery side. You have a specific question about the commodity, the net impact as compared to Q4 on the commodity side including the denominator effect, which by the way is now playing positive in our case of reducing commodity cycle is roughly 1.5%. On the mixed side, it is in the range of 0.5% to 0.7%. And the remaining part of that is either through a better realization or through some of the settlements with the customer for price changes.

Jay Kale: Okay, understood. My follow-up question is on the railways side. What is your outlook over there in terms of railways, given that recently there has been also news flow of some bit of PLI also being talked about for railway components. What is the input content in your type of product currently in railways? Any scope of expanding? And you mentioned that you are also looking at exports currently, but wouldn't the domestic opportunity be enough for you to kind of utilize your capacities or you're seeing some competition also coming in on the railways side in your products?

Manoj Kolhatkar: Yes, on railways, like we always mention, it's a tender based business. If you get some entries, there is always somebody who develops the product. It's a catch up. The only thing is we have moved fast. We have been the first supplier to be on boarded for the Vande Bharat. And railways, again, the pace is very slow. So, the numbers are very small. So, it's not going to, we can change in a big way, even though the PLI is announced or whatever, by the time it sees the light of the day in terms of the actual business, it takes a lot of time.

But the good part is, now we are there on everything that railway has to offer. So, we see some improvement. But again, repeating that the top line is a very small fraction of, and as we keep on growing, the rest of the industry is growing at, as we know in the last year, passenger cars over 22%, commercial cars at 40%. So, railways are totally different story.

Jay Kale: Understood. My next question is on the sunroof side. You did have, you've mentioned about the sunroof penetration of panoramic sunroof versus TVS normal sunroof systems. How much is it of imported sunroof today and what is the kind of price value proposition you all get by localizing the entire sunroof in India? Is it 10%- 20% cheaper than the imported sunroof? That is one.

And second, between the normal sunroofs and panoramic sunroof, what is the kind of price difference? Is it, again, panoramic sunroofs are double the price of normal sunroofs, or how does that equation go??

Manoj Kolhatkar: Yes, so panoramic sunroofs, the normal sunroof what you are speaking of, just to clarify, it's called the TVS, the small sunroof, right? That's what you mean, right?

Jay Kale: Correct. TVS normally.

Manoj Kolhatkar: So that's called the TVS, so its small in slide, and the bigger is the panoramic sunroof. So yes, typically what you guessed right, it's almost a figure of double. The size also is double, and the price also is almost double. That's with regard to the last part of the question and the first part you said about in terms of localization benefits and how many of it is right now imported. So right now, many of the sunroofs are still imported, though as you know, Webasto has already set up facility.

So still many of the sunroofs continue to get imported. So, in fact, Hyundai Kia is almost, other than a few TVS, the smaller sunroof models, it's all imported, which is where we are doing the localizing. The localization benefits right now are still small because the supplier base or the supplier ecosystem for it is yet to mature. This is the first time Webasto has set up, Kia is set up, and we are setting up. So now, obviously the supplier ecosystem will also start getting more mature and evolved and set up.

So, the localization percentage or location content of the sunroof will continue to increase. Right now, glass has been localized largely, plus some other components, but I would say still a long way to go in terms of more localization to happen in the sunroof category. But yes, right now the imports would be to the tune of, I would say, almost 50%.

Jay Kale: Understood. Just last question. It's heartening to see our share of business being higher in the UV side at around 35% versus 24% on blended market share. But in terms of your new products, you mentioned, we are seeing a lot of EV launches coming in from the UV players. How are we positioned in terms of Maruti, Mahindra, Tata, EV products coming in? How are our orders based on that? Because probably in the next three years, there will be a whole host of EV products launched. You mentioned in your slide that M&M you have one product over there. Is it an ICE product or an EV platform of theirs?

Manoj Kolhatkar: Yes, the M&M product is the eKUV, which is eKUV is a very small product. Earlier it was the E Verito as well. We were there on that too. But that is not a big runner. The key thing would be to get on board for the new EV SUV products, mainly. So, what we are looking at is this tech centre that we have put up both in Chakan as well as in Europe, exactly is to develop the latest technologies in terms of the semi-active suspension.

So, our first model, working prototype, fully functional prototype model, we test drove in all the customer's spaces and the feedback has been very good. So, we intend to start getting into manufacturing phase somewhere in the end of ‘24. That will position us well as per a semi-active requirement is concerned. But having said that, there's a lot of passive suspension requirement as well. So, we are there on the E-C3, which is the Citroen EV.

And we are in advance discussions for one of the Tata models coming up, which will be the Harrier EV. And in addition, of course, you saw the new car yesterday launched, the EV not launched. The model was showcased in Cape Town. So, we'll be also discussing on that with Mahindra.

Jay Kale: Understood. Great. Thanks, and all the best, and we wish you a sustained marginal performance. Thank you.

Manoj Kolhatkar: Thank you.

Moderator: Thank you. Our next question comes from the line of Mumuksh Mandlesha with Anand Rathi. Please go ahead.

Mumukesh Mandlesha: Congratulations on the good results and markets share gained in the PV segment in this quarter and also the interest shown by new customers for the sunroofs. Can you indicate overall at the group levels, what are the broader product areas where you're seeing the opportunities, where the global NCs are looking out for partners like ANAND Group to localize a product in India?

Manoj Kolhatkar: Well, Mumukesh, there are a lot of discussions with many OEMs, of course with Gabriel and ANAND Group for new products. So, as you know, in terms of sunroof, we already got it on board. And then there are several other product portfolios which our partners do have, as far as ANAND Group is concerned. This is not Gabriel, but our partners do have a wide product portfolio.

We're introducing them to, as I said, these tech shows that happened recently. We did display them even in Auto Expo. So, we are continuously looking and scouting for new opportunities through the product portfolio offered by our customers globally. So that continues. I don't know if I answered your question.

Mumukesh Mandlesha: So, my perspective was like, Gabriel also looking at the tech agnostic areas. So, I just want to understand, where you are seeing opportunities, broader areas, where you're seeing that global entry looking for partners?

Manoj Kolhatkar: Yes, so that's the length that we're looking at in terms of agnostic areas. So, there are quite a few areas right now, obviously we cannot disclose, there are a lot of agnostic areas which are in high growth and, particularly in UV segment. So, we are scanning, right now, we've got this sunroof now in our city and the important thing is to see that this starts off well and its production is well., Our energies are focused on it as of now. Having said that, we are looking and scouting for more opportunities as well.

Mumukesh Mandlesha: Right, sir. Coming to Sunroof, sir, I mean, there are only two Sunroof suppliers who have set up the plant in India. Would Webasto and Gabriel capture most of the opportunity as the Sunroofs are localized and kindly, broadly, indicate who are the other players, who are importing the Sunroof in Indian market?

Manoj Kolhatkar: Okay. So, right now, many of them, Hyundai and Kia do import, Mahindra does import, there is a little bit of import by Tata Motors as well. Maruti, since they have introduced only in the new models that is localized, these are the main players who are offering a sunroof in their product. So, this is the overall scenario of where the import stands today. And as far as the market is concerned, I already mentioned there are three players today. I mean, Webasto, CIE and Gabriel. So, there are three players in the market. And yes, I mean, a huge scope for everybody here.

Mumukesh Mandlesha: Right sir. So, what has been the capex done for the Sunroof till now? And in the context of the Sunroof, what could be the value addition? And what's the status of JV formation and what would be the valuation for the Inalfa acquiring the stake in the JV?

Rishi Luharuka: So, currently we are in the nascent stage. the amount that has been invested till 30, June is small. It's in the range of INR 9 crores. A large part of that is still lying as cash in their books. Total commitment of share capital we've shared earlier also is INR 60 crores, which will be shared by the two JV partners. The remaining part of the capex will be handled through the funding, which the entity can do itself. In total, Inalfa is going to own 51% and Gabriel is going to own 49%. Regarding the status of the application called Press Note 3 application, (PN-3), Inalfa has globally already applied for that, and it's currently with the authorities, and they are reviewing the same. There has been some development on that, but small.

Mumukesh Mandlesha: Right, so just one last question. Are we continuing to be a single source supplier for Ola Electric, sir?

Manoj Kolhatkar: Continue to what?

Mumukesh Mandlesha: Ola Electric. For the new models as well.

Manoj Kolhatkar: Yes, yes. All the four models that were discussed yesterday and the motorcycle model, we are single source on everything.

Mumukesh Mandlesha: Okay. And just on the new models launched by the Triumph and the Harley, have we got any traction for those models, sir?

Manoj Kolhatkar: No, Hero we do not have any business so far, Hero obviously not and with Triumph also we do not have that piece of the business. However, we are working on some new platform with TVS for an advanced suspension.

Mumukesh Mandlesha: Got it, sir. Thank you so much for the opportunity.

Manoj Kolhatkar: Thank you.

Moderator: Thank you. Our next question comes from the line of Viraj with SiMPL. Please go ahead.

Viraj: Yes, hi. Just two questions. First is, on the EV part, what you said for four-wheelers that we have back for Thar and then for Harrier EV variant. But just to get a perspective, in two-wheeler and three-wheeler, we got a quite a head start, vis-a-vis the competition in terms of getting a higher share of the EV startups and maybe some incumbent. But when we look at the passenger vehicle EV, what is the sense in terms of the -- our overall play in the pipeline? So, any perspective you can give in terms of share what we would probably be looking at vis-a-vis say the current leader ICE, really?

Manoj Kolhatkar: Yes, so, Viraj it's like this, that the current leader -- in the stories in EV, two-wheeler and EV passenger car are totally different, right? In EV passenger car, it still is the legacy players. You know, we must note that big shift in dynamics. In two wheelers, it's all the challengers, as we call them, who are leading the pack. So, what happens is, in passenger car now, almost 80% of the market share is Nexon, the Nexon EV. Now, Nexon EV, classically, it's an ICE platform. So that platform was not with us. That platform is the competition.

Now when that got converted to EV, obviously OEM will go to the existing current provider of suspension and not change the suspension, only retune the suspension. The suspension largely remains the same. So that's why obviously we are not there on the EV as we speak today. But going forward, as I said, with Harrier EV, we are in advanced discussions. Similarly with Mahindra, we are in discussions for the EV. So that picture will change.

Having said that, again, the EV penetration in India in terms of passenger car is not going to be, even now it's only at 1%. The optimistic estimate, you would know better, even by 2030, for a passenger car is, at best 20%, which also looks like very optimistic. So yes, in terms of volumes, it may not impact much, but however, definitely we need to have a larger play in EV and we are focusing our energies to ensure that we get more EV platforms, both in India as well as overseas.

Coming to overseas, we are in discussions with, I would say, at least two global players, which is a platform which is shared for EV as well as ICE engines. So how that goes, we'll have to see, but we are in discussions with them.

Viraj: Okay, second question is largely in terms of the new opportunities which we have. So, the ebike you talked about us probably looking at new orders in the coming quarter. Can you just give more perspective into the size of the business this can be in the next two years, three years? And similarly on the railway export part, how big the market opportunity is?

Manoj Kolhatkar: So, coming to the first question, which is on the EV 2-wheeler, it is a very interesting product. It is a very good value proposition as well. And we are looking at it mainly from the perspective of exports, because this market developed in India will take a lot of time. So, the market is huge. The market of e-bicycles in Europe is almost 30 million by 2030 and the growth rate is almost 20-plus percentage. And with more-and-more push coming on climate change and more environmental consciousness, getting into people, particularly in Europe, this will only increase.

So, we are seeing a very good possibility, that's why we address this. We had about eight years back, we had ventured into the normal bicycle suspension. It was more of an innovation exercise, but that did not have a great value proposition for us. But this surely is very exciting, both in terms of value and in terms of technology. And, as I had mentioned last time, we would not want to take it to at least the size of in the range, at least close to a INR100 crores business.

Manoj Kolhatkar: Yes, we have to, sorry, I forgot to answer on the railways part, you talked about exports. So there, again, we have done some exports in the past to Sri Lankan railways. We have formally engaged a consultant to help us find new markets, particularly in Russia, in Turkey, and in some Eastern European countries, and possibly African countries. Again, the size will not be very big, but yes, it will be exports, and hope that we'll get a good margin as well.

Your second question which you asked, I couldn't get it. If you can repeat that?

Moderator: Sir, Viraj has left the question queue. I will move on to our next question, which is from the line of Harshil Shethia with AUM Fund Advisors. Please go ahead.

Harshil Shethia: Sir, I want to understand what kind of size of businesses do you expect in the Sunroof JV? And going ahead in terms of railways also, what kind of the size of business do you expect to ramp-up in the next three years to five years, if possible?

Manoj Kolhatkar: So, in terms of sunroof, we did mention, of course, it's an estimate, but by 2030, really the market potential going by, let's say even if we take a, I would say a modest estimate of 35% penetration, the market size of total sunroof would be almost INR4,500 crores. That is the estimate that we have done. In fact, the market share in SUV is even higher. So, it can even go higher than this.

Harshil Shethia: Okay. And what kind of market share are you expecting to capture in this INR4,500 crores market?

Manoj Kolhatkar: With the current line that we did this -- currently, we are putting up two lines, and going forward we may add, definitely we'll add more. So, we are looking at hitting, within four years to five years, almost a INR1,000 crores. And by 2030, this figure will be, in terms of market share, yes, I mean, we look at 40%.

Harshil Shethia: Okay. Sir, with the current two lines, how much capex has been put up to set up the Chennai plant for Sunroof businesses? And what is the maximum, so what kind of asset turnover do you envisage from the same?

Rishi Luharuka: So, roughly, the turnover would be 4.5x, 5x. And the current capex, including building and long-term lease-related projects and other things, and the first-time investment cost of first-year installation would be in the range of INR120 crores to INR130 crores.

Harshil Shethia: And will it be the same margins as it is with the existing shock absorbers business, or the margins would be higher?

Manoj Kolhatkar: No, higher margins.

Harshil Shethia: Okay, higher margins. Okay, sir, and secondly, you said that there is a strong order inquiry in the railways business. So, can you just quantify what kind of order inquiries are we participating in and what kind of business ramp-up do you see in the next two years to three years in the railways end?

Manoj Kolhatkar: Well, Harshal, we mentioned that railway revenue size is not much. So, we are currently looking at a very small number. And that, I mean, in terms of our total sales, it's not even, it's just about 1%. You know, a little more than 1%. So even if it grows, it won't make any big change in terms of top line.

Harshil Shethia: Okay. Sir, my last question would be on the exports, and you said it is currently 4% of sales as of today. Where do you plan to take it up to in the next three years to five years in terms of percentage of sales or an absolute number if you can give? And what kind of margins do we see in the export business compared to our domestic businesses?

Manoj Kolhatkar: Yes, so our clear target has been to get to double digits in exports. So, we have maintained that. We want to hit the first 10%. Things were shaping well. But we all know some political issues that happened, like our exports to Russia were completely nullified due to the ongoing conflict. So otherwise, our export would have been much better, but our target remains 10%.

Moderator: Thank you. We move on to our next question, which is from the line of Amit Hiranandani with SMIFS Limited. Please go ahead.

Amit Hiranandani: Thanks, team, for the opportunity and congrats for the good operation performance and new order, sir. First on the GM gross margin side, basically I wanted to understand how do you see input cost for balance part of the year and sustainability of the current EBITDA margin in this fiscal year?

Rishi Luharuka: So, Amit in the previous discussion also in the quarter we had mentioned that we are taking measures in terms of improving our margins. So, our endeavour would be to sort of either continue here or further on improve.

Amit Hiranandani: And sir, can you give the capex outlook for FY'24 and '25, including Inalfa?

Rishi Luharuka: Including Inalfa, it should be in the range of INR160 crores roughly.

Amit Hiranandani: It is for FY'24, right?

Rishi Luharuka: 23, '24, yes.

Amit Hiranandani: Okay. And sir, next is basically, how is the traction of FSD, any new model addition for this tech?

Manoj Kolhatkar: Sorry, got dropped off for some time. But yes, coming to FSD, a very good attraction, I would say, luckily in our first model XUV700 is being appreciated very well right. Clearly, is different and much more comfortable. So, we already have two other OEMs where we are demonstrating this product to them on their models. Well, we'll have to see how it goes from there, but certainly, a good traction.

Amit Hiranandani: Also, sir, Gabriel now started derisking and diversifying from shock absorbers. So, directionally, which new product the company is planning to enter and how many more new products we can expect in the next 5 years, 7 years now?

Manoj Kolhatkar: Okay. That's a good question. As I did mention, we have done the first one. So, we'll continue on this agnostic theme or any product where we see very strong demand because it's not that the IC engine is going away completely, in India it is going to coexist for a long time and for the globe India is very likely going to be the last man standing when it comes to IC engines. So, we're not completely closed on that. But yes, the key blank will be agnostic products.

We are scanning those. And at least our plan is to come up with one more in the coming fiscal, one more acquisition and 5 years to 7 years, well, we can see at least 1 to 2 more.

Amit Hiranandani: Okay. Sir, just last question. Can you share the average realization of your segments like two-wheeler passenger, commercial?

Manoj Kolhatkar: Amit, sorry probably difficult question. But no, we cannot.

Amit Hiranandani: Okay fine. Thank you so much.

Moderator: Thank you. We move on to our next question, which is from the line of Devang Patel with Sameeksha Capital. Please go ahead.

Devang Patel: Sir, our share in 2-wheelers is down from 80% in Q4FY23 to 73% in Q1FY24. And you said earlier, will sustain that market share, but any reason you could describe for this drop Q-o-Q. Is it because subsidy was ended?

Manoj Kolhatkar: No, some of the players, let's say, Okinawa, which we are supplying our volumes have come down significantly. So, there's a little bit of change in arithmetic mainly. And like we said 73%, it would, in fact, be a little higher if we come to exact number sometimes, it's difficult to get the exact number as well. But no, it's not that we are not sustained. We certainly are sustaining what we have got, and we continue the business with all OEMs. It's nothing that we have lost. So, it's only a mix of the overall price.

Devang Patel: Okay. Sir, secondly, in the presentation capex of INR13.6 crores as mentioned for Q1, what is the standalone capex and does this include Inalfa. And if you can just repeat those numbers again for the full year, what is our capex for sunroofs and what is the capex in standalone?

Rishi Luharuka: Yes. So, Devang the number that you mentioned is for standalone only. The capex for Inalfa is INR 10 crores. It's not capex it is a share capital reduction. Now coming to the overall outlook, we are looking at INR160 crores, INR280 crores of cash outflow, including in Inalfa.

Devang Patel: So already a lot of shared work and etcetera, is done. So, there must be some capex already done for Inalfa in Q1?

Rishi Luharuka: Today, we are in August, the numbers I'm talking to you is of 30th June. So yes, you're right. And Devang, it's a leased facility.

Moderator: Thank you. Our next question comes from the line of Jayesh Gandhi with Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: So, first congratulations for a good set number. My question is again relating to Inalfa. –Since, we already did a presentation to Mahindra, Maruti, Tata Motors. If you have any feedback, can you just share or what kind of feedback have you received from them.

And the other question is since we are looking at if I heard you correct our vision by 2030, we take 40% of market share in sunroof, which is like closer to according to you, INR4,500 crores. And asset turnover is like 4 times to 5 times. So, I think we should have a gross -- closer to INR500 crores and currently, we are sitting on some cash, which again I think we are going to deploy for another acquisition.

So, from the current fixed assets or gross block of sales of INR420 crores, are we thinking of moving to somewhere closer to INR1,500 crores, INR1,600 crores in the next 7 years?

Manoj Kolhatkar: Okay. Now coming to your first part, you asked about Mahindra, Tata, and your customers. So, I think we launched new JV on May 9 that's, let's say, 3 months back less than 3 months back maybe. Within that, we have already -- after meeting this, we have got one RFQ, which we have responded. We have got two RFIs request for information and the NDAs have been signed with two customers. So, that's at least good initial moment within a short time of a couple of months.

So, I would say leave it at that. Of course, for the business translation, it will take some time. But yes, at least there's been -- compared to our other experience on other products etc. we have been positive in this. This turnaround in terms of getting RFQs, getting RFI, it's fast. So, obviously, there will be good conversion of this request for information.

Your second part Yes, we are going to put INR170 crores and then in this JV. And obviously, we are very clear that we'll have to augment the lines, probably put up a facility in different geography as well to meet customer demand based on the huge interest that we are seeing. So, yes, surely, we'll be looking at adding at least another INR100 odd crores in terms of investment to augment capacities for Sunroof going forward.

Rishi Luharuka: So, Jayesh. if I got your data points correctly, in terms of photo what you say is making, is it correct. But let's remember that it's a JV. So, it's a 51% stake is yet to come in the country. Once the PN3 approval comes the capital investment from share capital perspective will be co-shared and this entity is profitable as well as a good cash generator from its first year of operations. So, our plan is not to induct too much of share capital, but to leverage the entity assets itself for its operations.

So, broadly INR60 crores to INR100 crores, maybe INR120 crores, INR150 crores is what total share capital introduction from both the parties is envisaged, remaining will be debt.

Jayesh Gandhi: One last question since we are thinking of deploying this cash and also adding one or two more products in next 5 years to 6 years. What is generally our thinking while we choose a product in terms of ROE, ROCE or ROA whatever, is it going to be on similar lines, or you don't mind diluting on margins or can you just throw something on that?

Rishi Luharuka: So, Jayesh, it's an important aspect of any capital investment that we are looking at. There are a few hurdle rates. So, payback, IRR, these are the standard ones. In terms of ROS as well, it should be margin accretive to what Gabriel is currently. Now, when it comes to the return on investment on a long-term basis, it should be in the range of 20-plus percent is what we essentially look at.

But it all depends upon what kind of synergy that the target and can have with us and where we can take the entity once we have acquired the stake. So, while we have our hurdle rates, we also evaluate each case-to-case basis.

Jayesh Shah: That’s all from my side. Best of luck.

Manoj Kolhatkar: Thank you Jayesh.

Moderator: Thank you. Our next question comes from the line of Viraj with SiMPL. Please go ahead.

Viraj: Yes. I just have two questions, three questions. First, is on the export piece. We talked about Fuso Japan as a new customer for future development. So, just to get a perspective in terms of the size of the business, if you have to compare say to the PACCAR Group or DAF, what will be the present opportunity here for us? And with regards to the PACCAR Group or DAF what will be your share now based on the orders we already have?

Manoj Kolhatkar: So just to clarify, Viraj you said Fuso, right, Japan?

Viraj: Yes.

Manoj Kolhatkar: Well Fuso and DAF business, I mean, the size is not too big, but what we are hinging our exposure in this is more on one big passenger car order coming through because its volumes are much higher. And in terms of DAF, we are only on the cabin dampers, but we have now got that axle dampers RFQ as well, so that the strategy is playing out right. We have demonstrated a good quality and consistent supply to them who are having one award, twice in a row. Now the extent to the other damper and also excellent RFQ, there is excellent business to Brazil, they're expanding RFQs to PACCAR world as well.

So, clearly, in terms of the share, it is increasing, well, I do not have a number to share in terms of what is our exact market share in DAF. But we will try to revert on that separately. Fuso is still early stages and Fuso or for that matter Daimler also we are speaking to. And with this China plus One getting more and more real, we see a lot of scope, but yes, we have to note that the pricing of China is really cutthroat.

Viraj: Okay. Second question is on the margin front, if I look at last year 2023, and if you look at the Annual Report, we had a negative impact of around INR51 crores from the price change. So, I understand we seen an expansion in gross margin. But for this aspect, do we see bulk of that benefit flowing to us in 2024, given that RM prices are now trending downwards?

Rishi Luharuka: Viraj you need to clarify me this INR51 crores where you have been and how have you computed?

Viraj: So, in the Annual Report if you see there's a revenue as per contract and other than the discount part, there's a price change gain to customers, so...

Rishi Luharuka: No, that is not the case. This amount is basically the unbilled part of it. So, it's only a reflection on the year end what is outstanding. So, in the previous year to give you a perspective, we've had almost close to 95% recovery in terms of all commodities. What impacted us was the denominator effect and the aftermarket piece, which obviously cannot be increased in line of the market.

But now with the downward cycle, for example, in this quarter, we've already seen a 0.1% denominator positive effect as well as the commodity effect of 0.1%. So, currently, with the downward cycle, we will be facing -- will be seeing benefits coming out of that. But given that we have a proper approval mechanism in books, none of the benefits or the losses of previous year, if any, are expected to be recovered in this year other than commodities of the market.

Viraj: But just a further question on this, if we have already provided for the unbilled part in '23 was maybe for the '24, if I got it this right. Then in '24, the margin expansion should be even better, right, because the provision has already been made?

Rishi Luharuka: No. So, commodity is a quarterly settlement, for example., whatever is the movement on account of commodity multiply with the quantity in that quarter, that is only accrued. The future never gets accrued either case, right? Whatever is going to be the movement, we are going to flow with that movement, either upward or downward cycle as the case maybe.

Viraj: Okay. And just one more question was on the sunroof part. I think when we were starting out, we were looking at initially setting up one line and what we understand that we are now looking at two lines. So, what is driving this change? Is it that the volume expectation from existing two customers itself is more and that is what driving an expansion. So, any perspective if you can share?

Rishi Luharuka: Yes., we had always mentioned that our plan is for two lines, and we begin with one line and the expectations from the two customers is going to be meet towards with these two lines itself.

Viraj: Okay. the total capacity from two lines will be close to 4 lakh units, right?

Rishi Luharuka: Little less than that, but around that number.

Viraj: Okay and the investment of INR170 crores, which we talked about. So, if I would look at '24, that bulk of that investment, so the equity part of INR60 crores, INR100 crores, INR120 crores, that purely would be initially from JV and the rest will be funded?

Rishi Luharuka: The INR60 crores is the share capital till the time span you mentioned. This is till we get the PN3 approval. Obviously, because there is a government authority involved here, we have no certainty as to when it can happen. So, if it happens in Q4 the capital investment from the JV partner will come in, and our stake also will get diluted.

Viraj: Okay. Sir, total capex standalone would be INR160 crores in this year. In addition, we would have another 60 to 120 that's our investment.

Rishi Luharuka: Standalone is INR120 crores.

Viraj: Okay. So, when you say INR160 is already included the same part?

Rishi Luharuka: Yes, that is what the question was.

Moderator: Thank you. Our next question comes from the line of Ravi Purohit with Securities Investment Management. Please go ahead.

Ravi Purohit: Most of my questions have been answered. Just wanted to know the -- I think on the balance sheet, we have this 2% management fee that gets charged every year. Has there been a change in that in this quarter or this year or that continues to be remaining at 2% in future.

Manoj Kolhatkar: No, there's been no change in that, it continues for the same.

Ravi Purohit: So, there is no numerical value that there is a cash book where you have to kind of go back to shareholders to get a clear, it's just like a formula 2%, whatever the revenue we see.

Manoj Kolhatkar: Yes, sir we just tested out on an arm's length basis, and we have done benchmarking. All the studies we have shared. So, it continues to be 2 percentage.

Ravi Purohit: Thank you. I will come back in the queue.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now hand the conference over to the management for their closing comments.

Manoj Kolhatkar: Thank youall for your inputs and your complement as well. As I did mention, we will continue to focus on sustaining the margins and in fact even improving them. The next quarter is looking good. It's a festive quarter.

So, the best part of for the entire industry, we hope that we will be able to meet all the demands of all the customers. And while doing that also ensure that we maintain our efficiencies. Our focus clearly remains, to sustain the EV two-wheeler market share and make some inroads in EV passenger cars thought it is still a small part of the whole overall business.

And yes, one more clear focus area this quarter, we'll be getting those machines unloaded and commissioned in our Sunroof venture in Chennai. So, that's a very key activity that we are really focusing on this coming quarter. So, with that, I wish everybody a very, very happy festive seasons and because we're meeting only actually after the festive season is over in November, so thank you, and all the best to everybody.

Moderator: Thank you. The conference of Gabriel India Limited has now concluded. Thank you for your participation. You may now disconnect your lines.