"Gabriel India Limited

Q2 FY '24 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Gabriel India Limited Q2 -- Second Quarter Financial Year 2024 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 guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now 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, and good afternoon. A very warm welcome to this call. So, I'm joined on the call by Rishi Luharuka, our CFO; and Nilesh Jain, our Company Secretary; and our IR Advisors, SGA. So of course, I mean, all of you must have had time to look at the results that we published after our Board meeting this morning for the quarter ended September 30, 2023.

So, what I'll do is I'll take you through the presentation. And, while I go through presentation, I might also speak a bit on the industry as well and try to give a context of where overall the industry is heading in terms of the segments of automotive industry.

Coming to Slide 5. ~~This is~~ the summary slide for the quarter that went by, which is July, August, September, we got revenues of INR 865 crores with EBITDA of INR 75 crores and PBT of INR 63 crores. So our EBITDA margin on percentage has improved from 8.6% in Q1 to 8.7% now. And similarly, you see the same improvement in PBT from 7.2% to 7.3%.

Moving to the next slide, Slide 7, which talks about H1 since we finished half year, revenue was INR 1,670 crores, the highest ever revenue for a quarter. And growth compared to last half year was 9.6%, and I'm happy to share that the EBITDA improvement for the same half year is 31.4%. So, this is what we have been trying to do, as we have discussed in several calls earlier, trying to improve our margins quarter-on-quarter.

Coming to Slide number 8, which is again, the financial track record in terms of quarter-on-quarter and FY is listed there. So, I'm not repeating the figures, but just to share that our Core 90 savings program, which me and Rishi have shared with you all along, that is going on strong. EBITDA margin has increased by INR 6.3 crores and net margin increase is by INR 5.3 crores.

Moving to Slide 9, which is the, again, trend in the graphical format. So, margin trend is very clear there. And so is the ROCE. So, ROCE for this quarter was 38.1%. Coming to Slide number 11, again, the financial numbers in again a graphical format. And Slide number 12 is the key ratios. But the important thing here is, of course, we declared our interim dividend today at INR 1.5 per share, which is almost 24% payout ratio. This is the interim dividend for the year.

Slide number 13 shares the segment mix. the Passenger car segment mix has improved. It has gone to 25%. And 2-wheeler has reduced to 61%, which is more by the way of improved share of business in Passenger car as well as overall Passenger car market doing well. Since we are on this slide, I'd like to share that the Passenger car market is holding steady and showing a robust performance as far as the industry is concerned.

In the first half, we have already done 2 million cars, and the main growth is in the SUV segment, where Gabriel is also very strong. We have seen almost a 7% growth in terms of the Passenger Cars. With a robust pipeline, our waiting list, our order book for Passenger cars, we are very sure that in the whole year, we see another record for the Passenger car segment in India.

Two-wheelers is flat, while there was a thought that this might improve in terms of the overall sentiment since the market has absorbed the price increase that has taken place and the rural segment sentiment is coming back, but we are still yet to see strong numbers in two-wheelers. And coming to electric vehicles within the two-wheelers, I mean, the scooters are steadily selling around 60,000-odd per month, which had come down to 45,000 after the FAME 2 was removed in May, but it's coming back now to 60,000, 63,000. And this month, obviously, we are expecting and the whole industry is expecting really record sales in all segments. I mean the stock levels for Passenger car around 50, 55 days at the dealers. This is more in expectation of the solid demand that everybody is seeing. And even in 2-wheeler, the stock demand is robust.

Coming to commercial vehicle, which is 12% of the segment mix, as we can see from the Slide 13. That segment also has done well with more than 10% growth. And we are seeing an increased buying by commercial vehicle manufacturers in last month and this month and going forward. As what we are being told is there is a revival of the replacement cycle by the fleet. So, this is helping improve the commercial vehicle pickup in the industry. Now on this slide, in terms of the channel mix, 86% is OE, 12% is aftermarket. So that remains unchanged.

Slide number 14 is on the balance sheet. I think you've had a look at the figures. Cash flow is also Slide number 15. The debtor days -- I mean, the inventory days have reduced, which is what our focus on cash is -- continues to be very strong, and we will continue to try to improve this further. So Slide number 16 is our cost reduction drive, our core initiative, which is helping us immensely in terms of improving our margins that continues. And 17 just recapture the vision, which is to be among the top 5 based on 4 founding blocks: the exports, domestic dominance, M&A and technology.

Slide 19 is the slide on exports. Yes, the quarter did see a dip in exports mainly because our exports to Colombia were very low because they had stocked up earlier. The production should revive in this quarter. It may not come to the level of INR 31 crores, which we had in Q1, but it will be close to that.

Coming to the individual segments. Slide number 21 is on the 2-wheeler and 3-wheeler segment, where our market share is now 32%. We have got the business award for the HMSI commuter segment, which is Shine 100, that continues to do well. And in addition, of course, on the new platform of Ola, the S1 Air and the Gen2, both Gabriel continues to be 100%. We've also got some new orders from Gogoro and Ather, etcetera, including the TI, the tube investments vehicle as well.

Going forward -- if you go to Slide number 22, which is a good story as far as Gabriel is concerned. Our penetration in EV 2-wheelers is very strong, and our share of business is almost 80% because now, in fact, all the top manufacturers use Gabriel suspension. So, be it Ola, TVS, Ather, except Bajaj there, I mean, all of them, you can see on the Slide number 22 in the box, use Gabriel suspension. So that is good news.

And Slide number 23 is on the e-bicycle suspension, which I had shared in several last calls. This is some new foray as far as we are concerned. We have given the first 1,000 front fork in Germany. And in fact, our team members were there in Germany to understand firsthand feedback from the dealers. The feedback is quite positive as far as quality is concerned. We only have to improve further in terms of the weight, which is being addressed, and we are going to give even lightweight suspension and see how it goes from there.

Coming to the next important segment, which is Passenger car, where we saw the improvement as far as segment mix is concerned. This is mainly because the UV segment grew at 30%. And we have got the Maruti Jimny, the Grand Vitara, the Toyota Hyryder, Thar, XUV 700. All these vehicles are with Gabriel, and of course, the Maruti Brezza is also with Gabriel. So, all this translated into good sales. And thereby, we improved our market share also and overall segment mix of Passenger car has improved.

We also have won a new platform from Maruti Suzuki, which is again SUV segment car. And there is also, I mean, a plan of Maruti of making Jimny, I mean, making Maruti India base for the Jimny exports. So, this will also revised the Jimny production upwards for next year. This is also good news for us. And yes, this Slide number 24 shows the pictures of all the SUVs. I missed mentioning the Volkswagen and Skoda SUVs, which are also doing well. We are 100% source to them as well.

Coming to Slide 26, which is the commercial vehicle, where we have a dominant market share. That, I mean, of course, mirrors the industry, and we are looking at some breakthrough in export orders in terms of commercial vehicles, building on the DAF order that we have already got in terms of cabin dampers. We already got RFQ for some axle dampers from DAF of Netherlands. So that should add to our overall content per DAF truck going forward.

Railways, nothing new to share here other than to say that, yes, we are there on everything that Indian Railway needs. And, the volumes are doing a little better than what we had expected. And I would say even for this year, the same trend should continue.

Aftermarket, again, good growth. We have achieved 9% growth over Q2 of last year. And even if you see H1 half year to half year, it's 11% compared to last year. Yes, the aftermarket, as such is getting a little difficult in the current month, but we will continue to maintain this good growth trend in aftermarket as well.

In terms of M&A, which was one more key foundation blocks of our vision, as you know, we have done the Inalfa Gabriel Sunroof Systems in Chennai. Happy to share that we have already dispatched our first sunroofs assembled in our factory in Chennai, and they have been supplied to Hyundai. These are, of course, for samples. Fitment trials is happening, happy to share that the entire line, including the robots and the PU encapsulation machine, etcetera, everything, including the people after being trained in Korea are all ready. Now geared up fully for start of production in January.

Also, I had shared last time that we have opened a Gabriel Europe Engineering Centre called GEEC -- we call it GEEC. These are the actual pictures that you see of our engineering centre. The 2 photos that you see are actual engineering centre photos. You can see some of our team members also there. And this has already started functioning.

We have 2 expert employees on board, and the plan is to keep on improving this. This is located in Genk in Belgium, right next door to the Ford proving track, which is a very strategic location when we have to do the testing for the vehicles that we will do. This is particularly working in semi-active suspension, where you have developed the 4-wheeler as well as the 2-wheeler, the trials are going on.

And the tech centre, I had already shared. So, I'll not share further on the presentation. Now iI'll hand it over back to the moderators and keen to listen to your questions, your inputs and suggestions. Thank you.

Moderator: The first question comes with Mumuksh Mandlesha with the Company of Anand Rathi.

Mumuksh Mandlesha: Happy festive season to the management. Sir, starting with just a few questions on the results, the gross margin was lower Q-on-Q. Should it be because of the lower aftermarket and export share, sir? And if I can ask further, the employee cost also has jumped by 9% Q-on-Q. Any reason for that? And what could be a sustainable number for the employee cost?

Rishi Luharuka: Mumuksh, we are not able to hear your question. Can you take the receiver and pull away from the mouth and speak?

Mumuksh Mandlesha: Yes, it now's clear, sir? Better, sir?

Rishi Luharuka: Yes.

Mumuksh Mandlesha: Sir, I was asking is that the gross margin was lower this quarter, Q-on-Q. Should the adverse mix be the reason for the gross margin because the aftermarket and export were low in Q2? And on the employee cost, which has jumped 9% Q-on-Q, any reason for that? And what would be a sustainable number for the employee costs going ahead?

Manoj Kolhatkar: So, the gross margin, you are talking about Q-o-Q, not Y-o-Y, right? Okay. Yes. So that is obviously just a mix. Yes, exports is, as I said, the exports are a little down is the factor of the mix that has happened to some extent. What was your second question?

Mumuksh Mandlesha: Sir, employee cost had jumped 9% Q-on-Q. Any reason for the increase, sir?

Rishi Luharuka: Okay. I am assuming you're saying move to the employee cost, right?

Mumuksh Mandlesha: Yes, employee costs.

Rishi Luharuka: Potentially, we've done some amount of restructuring in terms of the compensation structure. And as a result, there has been a little extra cost in this quarter on account of actuarial valuation that is what is impacting the employee cost.

Mumuksh Mandlesha: So, this number can be stable number, right, sir?

Rishi Luharuka: Yes it should be in that range.

Mumuksh Mandlesha: Yes. So, I was saying, sir, 3-wheeler EV share, which is around 8% currently. And so, what would the plans to ramp up that as the 3-wheeler EV also seeing good potential, sir?

Manoj Kolhatkar: Even an EV share, if you see the organized players, we are very well entrenched. So, the kinetic green and the Mahindra Trio and Bajaj EV 3-wheeler, I mean, all 3 are with us. So, these are the main players, but if you see when there's a mix of many players that are also happening there. That's why we are a little low on the 3-wheeler compared to the 2-wheeler EV segment.

Mumuksh Mandlesha: Right, sir. And sir, on the suspension business, are we seeing some of the competitors in both India and overseas, a place in terms of profitability? Do we see opportunity of acquisitions in the suspension area?

Manoj Kolhatkar: Mumuksh, I mean, yes, of course, I cannot be specific. But yes, there are opportunities globally. And -- in fact, we had looked at one opportunity earlier, but for obvious reason, we cannot. But yes, there are -- to answer your question, there are opportunities in the globe. And as we discussed, we are scanning for any possibility.

Mumuksh Mandlesha: Got it, sir. And just lastly, on the sunroof side, any new update on the order wins, sir? And also on the suspension side, you have mentioned about the Gogoro. So, can you talk about the potential of this new order win, sir?

Manoj Kolhatkar: Regarding Gogoro, I'll come back to that. The order is not very big, but yes, we have won the order. I'll just come back to you on the figure. On the sunroof side, our focus, of course, is currently to get this SOP where you've got the order from Hyundai Kia started. Primarily, as I've shared, we have discussed with several Indian OEMs.

So, we have got -- I can only say that we have got some RFQs, and we are in discussions and responding to those RFQs as of now. So, no new order wins, but yes, our discussions are on. The good part is starting only we announced in the month of May, and we already have got a couple of RFQs.

Mumuksh Mandlesha: And just on the Gogoro, sir?

Manoj Kolhatkar: Gogoro is -- the peak sale value is INR 20 crores, annual sales.

Moderator: The next question comes from the line of Viraj with the company SiMPL.

Viraj: Just a couple of questions. First is on the employee cost, just a clarification. You said that the run rate of INR50 crores is what we should kind of revert to back in Q3, right?

Rishi Luharuka: Yes. I mean, at a similar volume, yes, Viraj.

Viraj: Yes. So, I think there's roughly around INR4 crores of impact because of revision and gratuity.

Rishi Luharuka: Yes. And there are also increases in the minimum wages that has also been taken care of.

Viraj: Okay. Got it. Second -- so second question is on the engineering and R&D centre in Europe. Just to give a perspective, what kind of investments you would have to make on an annual basis in terms of P&L?

Manoj Kolhatkar: Right now, the investment is not much. I mean we are not putting any big investment there other than some testing equipment. That will also come mostly in the next financial year. It will be more of people cost that will be there because we'll be engaging people, and we don't want to duplicate the test facilities, both in Gabriel Chakan as well as there. So, we'll do a minimum investment model and do all the main testing in the tech centre in Chakan.

Viraj: Okay. So once the centre is full-fledged up and running, do you have any particular budget in mind in terms of how we're looking at it? Is it more of a cost centre or we would also kind of...

Manoj Kolhatkar: As of now, that is a model.

Rishi Luharuka: Viraj, essentially, it's a centre that is going to only work on the future technology. The idea here is to generate intellectual properties, whether registered or not. So effectively, whatever we are going to spend either in Belgium or whatever counterpart we are going to create or we have competed in Pune tech centre facility, that is going to be a part of the patent cost. It is to be clear capitalized value. Roughly, given our plans, INR10 crores, INR12 crores a year is what we are looking at in terms of investing every year towards this.

Viraj: Okay, sir, that will be capitalized. Okay. Second question is largely on the Inalfa JV. So, you said that we have commercialized. So, we have kind of -- the plant is ready, and we have started with the treatment trial. So, the initial capacity will be 4 lakhs, that's right?

Rishi Luharuka: 2 lakh.

Viraj: Sorry?

Manoj Kolhatkar: 2 lakh, 200,000.

Viraj: Sir, we only talked about setting up 2 lines, one each of 2 lakh unit?

Manoj Kolhatkar: So, 200,000 would be the capacity currently.

Viraj: Okay. And in terms of ramp-up, how should one really understand?

Manoj Kolhatkar: Well, we'll start from the month of January and the ramp-up will be steep in terms of rupee crore, we realize that we really cannot be sharing those figures. So effectively, each line is 200,000. We are currently starting with one line and depending upon the future orders, we'll be adding more lines. And the first year itself, we would be utilizing roughly around 60% of the capacity.

Viraj: Understood. And just any update given the other new product initiatives. So, I think what we talked about is in the second half, we may have something in terms of probably one more product addition or anything on those lines?

Manoj Kolhatkar: Next fiscal is what we are planning the second part because it's really just integrating this Inalfa right now. And also, in terms of new product addition, we have started the e-bicycle front fork. That is also something that we have started. So yes, we'll have to wait for the next fiscal.

Moderator: The next question comes from the line of Amit Hiranandani with SMIFS Limited.

Amit Hiranandani: Congrats for a good set of numbers. Sir, first on the CV side, so we are happy to see that Gabriel India has high market share in the CV segment. Can you please help us with a secret ingredient of maintaining such a high share? And how much of the same is sustainable for the next 5 years? And also, if you can highlight who are the existing competitors in this category?

Manoj Kolhatkar: Yes, Amit. Thanks for your remarks. So, on CV side, we have held this kind of market share for quite some time. And as you know, there have been players in this segment, but it's a mix of several things. One is the experience, mainly in terms of understanding the CV market, having the competence in terms of development of the products which offer value to the commercial vehicle customers. And while keeping in mind the cost also is important. So that experience resides with us. And yes, of course, the customer relationships.

And the other part is in CV, it's a high variety and low volume gain. It's a little different when compared to passenger or -- I mean, obviously, I'm not comparing the 2-wheelers which are high volume. This is high-variety, low volume here. So that is something that we have learned and we do well at it. So, these are some of the factors that hold us in good stead as far as CV is concerned.

And yes, our response, our service levels in terms of quality, cost, delivery, have been excellent in terms of product development, I'm happy to share that just a couple of weeks back, we won the technology and innovation award from always competing with the best in the technology competing with bases and Continentals of the world. Gabriel was awarded this Technology Innovation Award for proprietary products, in fact, in the entire space of proprietary products. So, all this put together, I think this whole augers well for us.

Amit Hiranandani: Happy to hear that you're winning new innovating at competing with the global players.

Manoj Kolhatkar: Not only the current business, but we are developing new products for them as and when they want. And as we speak, we are working on new products to address the global CV industry as well. And your other question was on going forward 5 years, whether we'll be able to hold the market share. Well, I think you've done that for solar. So, I would say that yes, should continue.

Amit Hiranandani: Sir, my second question on the Sunroof business. So just curious to know why Gabriel is a little slow in Sunroof capacity expansion the company setting up only 2 lakh units capacity, whereas your competitor Webesto already has place capacity and this going to near double to 9.5 lakh units in the next coming few years. So just your remark on this, please.

Manoj Kolhatkar: Yes. So, Webasto has been here for some timing last has been a year for at least -- I mean, over 2 years. So, we have just announced this venture in the month of May. So, as I said, the important thing would be for us to get this one line fully utilized, and I believe we have worked on the second line. And of course, you're working to get new business orders from the other -- other than Hyundai Kia customers, so...

Amit Hiranandani: Okay. Sir, continuing with this, so approximately our estimated sunroof industry size is about 13 to 14 lakh units in FY '24. And I just wanted to know if you have this data out of this number, how much percentage roughly is exported from India? And if you can name a few of the models, which get exported with sunroof?

Manoj Kolhatkar: You're talking about sunroof exports or the...

Amit Hiranandani: The car with sunroof, which get exported from India.

Manoj Kolhatkar: Amit, unfortunately, I don't have that figure. But, yes, I mean, OE wise, it is different, so difficult for me to revert on that. But we'll get back to you.

Amit Hiranandani: Okay. Sir, just last one question on the 2-wheeler side. So how much more is the price of one shock absorber and electric 2-wheeler, or if you can throw some percentage how much is the realization is higher in the EV?

Manoj Kolhatkar: So yes, Amit, you answered this earlier in the sense that there's practically no difference between EV and non-EV shocks, especially in 2-wheelers. So, the price also, in fact, our realization may be a little better in E2-wheelers because these are new players. So, realization is better, but as far as product is concerned, it's pretty much the same.

Amit Hiranandani: No, I mean, the competitive with the EV 2-wheeler versus 2-wheeler IC. So, the 2-wheeler EV shock as our price is a little bit higher, right?

Manoj Kolhatkar: It is higher, but the product remains more or less the same.

Moderator: The next question comes from the line of Akshay Karwa with Anand Rathi.

Akshay Karwa: A couple of questions from my side. Sir, could you talk about the industry performance in H2? How do you see the growth for the 2-wheeler industry, passenger vehicle and commercial vehicles any production schedule that has been shared with you, which really helps with growth, sir?

Manoj Kolhatkar: Yes. So, as we mentioned, the CV order book looks to be quite strong. The CV players are going for replacement demand, I mean, the fleet replacement cycle. The CV order seems to be quite strong. Coming to Passenger car, I already mentioned the order book has come down slightly at least, and now you have vehicles available. When you go to bike, waiting list has just come down, but order book is strong. So even PV could fall in the range of 8% to 10%, CV will be definitely 10-plus percent. But 2-wheeler is what I've mentioned that while the expectation that it should improve, but we are still seeing a very flat kind of ICE 2-wheelers.

Akshay Karwa: ICE 2-wheelers. Got it, sir. lastly, on the electronic suspension, just a basic question. So, when do you think the average Indian customer would want to move towards such kind of suspensions? How do you see this market evolve from traditional suspension that we have today to electronic suspensions like where do you see -- when do you see such kind of a shift happen? And what would be the approx. price difference today, so between the same?

Manoj Kolhatkar: So, the electronic suspension is even if you see globally, it does not come in mass market cost where the average price of car itself is very high in Europe or U.S. or Japan, developed nations. Basis, the percentage of active suspension or semi-active basically electronic suspension is low, with less than 10%. So, for that to come to India in a mass market is very difficult.

Nevertheless, you should have the product in your portfolio as far as technology is concerned. And many-a-times, it so happens that the higher variant or the highest variant will have the -- they may give an option at an additional cost because cost of this is so high. In some models, it is given at additional cost, if you want active suspension, you will get it at additional cost.

Akshay Karwa: Got it. And what would be the approx. highest difference? So, let's say, I found that traditional suspension is 1x. So how much would be electronic suspension would be the bet, like a ballpark number, sir?

Manoj Kolhatkar: It'd be more like 2.5, 3x.

Moderator: Next question comes from the line of Jay Kale with Elara Capital.

Jay Kale: Sir, my first question is regarding your orders. So, if you see -- you've got a pretty decent share and increasing share in 2-wheeler ICE similar with 2-wheeler EVs. And also, in the passenger vehicle in the UV side, you're getting decent orders. Could you comment a little more about your order outlook for passenger vehicle EV side?

Because typically, now probably in the next 12 to 18 months, you will see a lot of EV in EVs being launched by the legacy OEMs in India and the development time would be closer to at least 2 to 3 years or maybe at least 24 months. So, any colour you can throw on that piece of the business? And is the order win getting order wins and that piece a little more difficult or easier if you can just throw some light on how the competitive landscape is different in that segment versus your other 3 pieces?

Manoj Kolhatkar: Yes, Jay, so if you see the EV Passenger car, the penetration is at 1%. And again, while there was a good improvement somewhere in Q4 of last fiscal, the volumes are more or less -- if you see last 4 to 5 months, it's around 7,000 in that range, 7,000 to 8,000. So, it's will still take time because, one, the cost is still high, and people still don't buy it as a first car. It is all still second car consideration. So, it will still take some time for that market to really penetration to improve in terms of EV 4-wheelers.

Having said that, our, let's say, penetration or share of business in EV Passenger car is low because the main player there is Nexon. Nexon EV itself is about 70% of the overall EV market in passenger cars. So that's why where we are not existing. However, we have got a new model of Tata Motors, which we are developing currently, which will go on the EV as well. It has got both ICE and EV. So, we are there. So that will start.

We are there on the -- it's a very small volume, EC3, that has been introduced. We are there on that model that is 100% with us. And we are there on MG. So, these are the main -- I would say, the main 3 EV players in India and for this Mahindra SUV. Again, that platform is not with us. It's the same suspension.

So, your other related question was -- I mean, is it something different or are there some different considerations? No, I don't think so. It's just a tuning of the shock observer, has to be done differently. It's pretty much the same technology and the same product. Only it has to be engineered to meet the rider handling characteristics, which are needed be changed because the EV weight distribution is totally different and the battery, it's all heavy at the bottom. So, to that extent, it changes.

Having said that, we are also investing further in our tech centre in noise testing equipment so that we are very well prepared to ensure that our suspension is as silent as it can be because the in-cab noise is obviously going to reduce as we go along. So that's what I had to share as far as EV 4-wheeler is concerned.

Jay Kale: Understood. This is helpful. And second, on your margin side, we've now come to a steady state 8.6% margin, at least in the last couple of quarters. You had historically mentioned that your target is to reach 10% or double digits irrespective of the commodity scenario or the mix scenario, it's more about your internal cost efficiencies. We have seen some bit of benefit on the commodity side probably in the last couple of quarters. So how should one think about your margins in the next 1 or 2 years? Are we on track to reach that double digit without the commodity benefit coming in?

Rishi Luharuka: So, Jay on the contrary, this quarter, you are seeing a bit of an impact on the gross margins. That's on account of different index being used by different customers and on the supplier side. So close to 0.3% impact is on account of sort of commodity rather than a positive effect.

So, in line to what we have been saying that irrespective of the commodity, we have the endeavour of reaching the double digit. We are on that track. We have sort of exhibited in the last 2 quarters. The plan is to continue with this trend. And again, in terms of what will be the secret sauce, well, CORE90 is the answer, which is essentially encompassing all the projects that we have planned to undertake to these double digits.

Moderator: The next question comes from Nikhil with SiMPL.

Nikhil Upadhyay: Congratulations on a good set of numbers. Just 2 questions. One is continuing on this margin trajectory of double digits. Now when we had met last time, you had mentioned that if we categorize our margin across buckets, an increasing PV contribution puts a pressure on our margins.

Now in order to reach that 10% or double-digit, how would the mix between the different categories have to play out? So, which of these categories you would say or segments you would say have to scale up so that even though our EV order mix keeps on increasing, our margins can reach at double digits? That is one.

And second was, I'm just curious to understand, we had a very strong R&D centre in Chakan, which we had visited and we have done a lot of work on the R&D side. Why did we put a R&D centre in Belgium? Was it like on behest of our customers or what strategic advantage does this give us?

Manoj Kolhatkar: You talked about Japan, which was that name, sorry?

Nikhil Upadhyay: Sorry?

Manoj Kolhatkar: You said the term, Japan, I didn't understand...

Nikhil Upadhyay: No. I didn't say anything in Japan. So, I said why did we put a R&D centre in Belgium while we have a centre in Chakan. So just wanted to understand what advantage does it provide?

Manoj Kolhatkar: It's not Japan. It's Chakan.

Nikhil Upadhyay: Yes. I'm sorry.

Manoj Kolhatkar: I heard it as Japan. Okay. So, I'll cover the first question, Nikhil. Thanks for the compliment. See, as far as the EBITDA margin, yes, certainly, the mix has to play a role there. That's why we are targeting, obviously, adding products to the aftermarket using our range, getting in areas in product also traded –under the brand name of Gabriel, that is one part. The second is the railways.

So, we have developed all the products for railways. So, railway, while the top line is not very big, I've always maintained, but it does contribute to the bottom line. It will play a part in terms of margin improvement towards product mix.

The third would be exports, where we are working on. As I said, we have now the DAF, where we are supplying the cabin dampers. Now finally, we have got -- as what we had planned for, we have now got the axle damper RFQ as well. So, exports will also play an important role in terms of margin improvement and sustenance. So, these would be the areas whereby we will try to address it through the mix part.

Having said that, Passenger car, we did mention, it is the most, I mean, competitive market. But nevertheless, we have -- as we have discussed, we have been pursuing with OEMs for some compensation. And yes, we are also looking at some improvement in terms of the realization as far as passenger car is concerned, even in the current scenario. That was for the first part of margin improvement.

Second, you asked about why we are set up in Belgium. Now this centre has been set up mainly to address the Passenger car segment, mainly also to get some expertise on the semi-active suspension, which is mainly in the Passenger car. Two-wheelers also use to a very small extent, and we are working -- developed our first 2-wheeler. We ran it in the test track in Belgium already last week. But the main focus is for semi-active suspension in Passenger car segment. And that is where the skill and the competence resides.

Europe is -- as you know, Europe -- the technology levels of Europe are as far as Passenger car is concerned, we all would agree it is among the best. And that knowledge does not reside in India for sure. I mean we don't even have anybody with that experience in India. And we have narrowed down on a geography which is right next door to the Ford proving track, which gives easy access for us to do the testing.

Second, it is also a good area, very close to Netherlands, close to Germany, close to France. So, it is very easily accessible for us to locate somebody there and visit any customer within literally 3-hour drive, 1-hour to 3-hour drive. And the third point is there are a lot of good universities around that area, where we are able to access some good talent as well going forward. So, all these 3 put together revenue, it was to be in Europe. So, we finally narrowed down to Belgium and the facility there is also quite a beautiful facility at a very, very reasonable price.

Nikhil Upadhyay: Based on this technology R&D investment, which we are doing, is there any related products, which you can develop and probably try to enter a similar product to a suspension or related or ancillary kind of a product because we are investing like INR10 crores every year behind this R&D. So, it is only for one product or do you think we can develop more products using this technology advantage?

And secondly, on the margin side, is exports, aftermarket and the other pieces have all to add up? Would you say that these 3 or 4 segments have to become like 20%, 25% of our business for us to reach a double-digit margin?

Manoj Kolhatkar: Absolutely. So, we have clearly said long-term ambition also has been to take exposure aftermarket to that range of 20%, 25%, that's the plan. But once you have a footprint in Europe, It opens up doors. We've already seen some benefits in terms of some new opportunities have come up. Unless you have feet on the ground, things won't happen.

Moderator: The next question is from Rajit, who is individual.

Rajit: Congratulations on a good set of numbers. I just had a few questions. One is on the utility vehicle segment. Our utility vehicle segment has been outperforming the other segments of the Passenger cars for quite some time now. Do you think that trend is sustainable? And do you see similar kind of growth going into FY '25 as well?

Manoj Kolhatkar: You mean the Utility Vehicle share of the market?

Rajit: Yes, the share of the market as well and your growth within the Utility Vehicle segment.

Manoj Kolhatkar: Yes. I mean we are seeing this UV, currently, the UV forms about 52%, 53% of -- 52% to 54% of the overall Passenger car pie. It is expected to reach to a level of 60% to 65% in India. So, there's definite room for it to grow further. Entry-level sedans as well as the hatchbacks are the ones that are taking a beating. So, the UVs will improve. And as far as we are concerned, I mean, Gabriel, we have a good order pipeline for the UVs.

So, let's say, we are now working at Volkswagen for the current UVs. We already have got the new platform nomination. We have got a new SUV of Maruti that order also is with us. And there is also one Tata Motors vehicle, which is with us. So yes, certainly, we see a good traction regarding Gabriel and SUV segment.

Rajit: Right, sir. And another question on -- going back to the JV for the sunroof, earlier, I think there was an estimate or a number which was shared of a peak turnover of more than INR1,000 crores. Was that -- I mean, I believe that would include both the lines. Now we are saying initially, we will only focus on the 2-lakh capacity. So, does that mean for now, we are looking at a peak turnover of approximately INR500 crores? And the related question is, I mean, recently another industry participant signed an LOI, set up a JV for sunroof. So, does that have anything to do with them, I mean, looking at a lower number?

Manoj Kolhatkar: No, no, no. It's nothing to do with that. We had announced this number earlier itself, not today. So INR1,000 crores was with 2 lakhs, yes. it takes time. We have been lucky that we got the first order quite soon. I mean we have put up the plant in July and we are supplying from January. It doesn't happen normally. But that's due to the partner and the order that we have with Hyundai KIA.

So initially, it's -- I mean, the first line will stabilize and then the second line will come. I mean I don't think that we are taking any -- let me put it this way, we are not going to leave any opportunity unanswered as far as sunroof is concerned. And if it calls for us -- if the demand is so that we have to put up one more line, let's say, even in a different geography, we are completely ready for it.

Rishi Luharuka: And Rajit to clarify, we are not changing the numbers that we had shared earlier. We are saying that as of now, we are stabilizing the first line. And thereafter, we're going to follow it with the second line.

Moderator: The next question comes from Viraj with SiMPL.

Viraj: Yes. So, I'm saying that for us, looking at around 60% utilization in the first year itself, it was a very good target to achieve. But if we are to look at adding second line, usually, what is the lead time for one to do that? Either at a new location or existing?

Manoj Kolhatkar: No, existing location, we have ensured that we have enough space to put one more line. I mean that's how we have planned it in that Chennai factory itself. So, putting up a new building is not required. But getting the new line, that development period would be close to 30-odd weeks.

Viraj: Okay. And the supply ramp-up, which we're looking at will include both Hyundai and KIA as well because I think even for Seltos, we were earlier looking at?

Manoj Kolhatkar: Hyundai and KIA, not Seltos, but another model of KIA.

Viraj: Okay. So, this will include -- the 60% would include both the OEs?

Manoj Kolhatkar: No, it only include Hyundai. This is only Hyundai. The KIA one will kick in from January 25. Okay? It will take the utilization even higher.

Viraj: Understood. And once the operation kind of stabilizes, I think earlier, we had shared our double-digit operating margin after adjusting for all the royalty payouts. So, this still holds true for the business.

Manoj Kolhatkar: Yes it is.

Viraj: Okay. And last question was on the capex part. We earlier shared about plus INR100 crores capex on the stand-alone entity. But if we look at the first-year half, we've kind of spread around INR35 crores. So, are we still -- is there any revision, or are we still looking at that kind of a capex outlier?

Rishi Luharuka: So, we have -- I mean INR100 crores to INR120 crores of the capex on stand-alone was sort of the total commitment that we will do. The cash flow will be obviously different in different parts of the peer. Our rough estimate still stands at INR100 crores. It can be a little -- sort of the payout can happen overflow in the '24, '25 as well.

Moderator: The next question comes from Amit Hiranandani with SMIFS Limited.

Amit Hiranandani: Sir, any talks with the group for reducing the royalty payment?

Manoj Kolhatkar: Amit, we did discuss when we met last time that we, of course have noted all your inputs. It's all that we can say right now.

Amit Hiranandani: Okay. Sir, how much royalty Gabriel has paid to its technology partners in FY '23?

Rishi Luharuka: In FY '23. Amit, I'll come back to you. It's around, yes, it's around Rs. 40 million. I'll come back.

Manoj Kolhatkar: About INR4-odd crores.

Rishi Luharuka: But that's there in annual report as well, yes.

Amit Hiranandani: Okay. Sir, just last question on the FSD tac. So, any client addition or product wins on this FSD side?

Manoj Kolhatkar: Yes. So, we are working with 2 clients to other OEMs who liked this technology, not yet resulted in a business, but we have developed the suspension. We are actually fitting it on their vehicle and testing it out.

Moderator: The next question comes from Rehan, a private investor.

Rehan: Hello?

Manoj Kolhatkar: Yes, yes. Go ahead.

Rehan: Sir, just want to understand the competitive landscape in the PV segment. You are a 25% share. How much would be the other players?

Manoj Kolhatkar: So, number one is Tenneco. They have, I would say, close to 40%. And the other player is Mando, who is Anand Group JV company only. It is the Hyundai and Kia, which is about 25%.

Rehan: Okay. Sir, Motherson is not in this space?

Manoj Kolhatkar: Yes, they have a JV with -- it's Motherson Magneti Marelli. There is only one plant, which mainly does export back to Italy.

Moderator: Thank you, ladies and gentlemen. This concludes our question-and-answer session. I would now like to hand the conference over to Mr. Manoj Kolhatkar: for his closing comments. Please go ahead.

Manoj Kolhatkar: Thank you. So, thank you. Thank you all for those interesting questions and your opinion. So -- yes, we are quite happy that we have been able to deliver on what we have been telling in terms of margin improvement, in terms of even growing ahead of market.

Yes, and we are very excited with this new JV and the new sunroof plant. And I was there last week. It was very heartening to see the first new products being dispatched to our customer. So yes, I think it's a good note for all of us to start the festive season. So, all I can wish everybody is very, very happy and safe Diwali and a prosperous New Year and look forward to meeting you in the next call. So, thank you, thank you so much.

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