“Gabriel India Limited

Q3 FY '24 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Gabriel India Limited Q3 FY '24 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

Manoj Kolhatkar: Thank you. Good morning, everybody, and a very warm welcome and before I start, a very, very Happy New Year to everybody, happy 2024. Joining me today on the call is Rishi Luharuka, our CFO; Nilesh Jain, our Company Secretary; and SGA, our Investor Relations Advisors. We have reported results after our Board meeting yesterday. I hope you've had a chance to glance to them. I'll, of course, take you through the presentation as always.

So, what I'll do is, in fact, straight away going to the presentation. So, if you all are referring to the presentation, I'll straight go to Slide number 5, where it shares the highlights of the quarter, Q3 that went by.

So, revenue was INR 814 crores. So, it was a reasonably good third quarter. As you all know, third quarter typically for the industry is cyclically low, Diwali being in that month and the year ending December month so obviously, it's always a little low. Despite that, we had a 14% year-on-year growth. And this growth extended 9 months to 11.1% increase in revenue, taking the total 9 months to INR 2,484 crores. In Q3, what is more heartening was that our EBITDA margin stood at 8.8% compared to 7.2% in Q3 FY23, which is clearly a significant improvement. And as we have been sharing for several calls, we've been working on improving the margins. I mean based on feedback from all of you as well. So, this, we have been able to do. So, 8.8% EBITDA margin for Q3. As you can see -- again, on slide 5, from Q4 FY '23, it is 7.1%, then to 8.6%, then to 8.7% and now at 8.8%. If you now move to the next slide, which is Slide 6. Again, the same figures in a different format.

Now I'll come to the industry dynamics. So in terms of passenger car in Q3, there was the total industry sale of INR 11 lakhs i.e. INR 1.1 million, again, which is higher as compared to INR 10.86 lakhs in Q3 FY '23, about 4.79 million passenger vehicles was sold in last calendar year, which is an increase of around 7.7% with sales of 4.43 million in 2023, I'm talking of the calendar year. Mainly, we are seeing a wide adoption of sport utility vehicles and electric vehicles. However, electric vehicle penetration impacting it still remains very low at just about 2% to 3%. But nevertheless, the numbers are increasing, in fact, on a monthly basis, now we are seeing electric vehicle sales crossing 8,000 in terms of passenger cars.

Passenger car grew in Q3 FY '24, mainly due to robust economic growth, new launches, which happened typically during Diwali and then in December, the year-end discounts offered the automakers. Out of the total PV sold, UVs accounted for 58%. So, this -- we have been seeing this trend for several quarters now. But now it's peak that almost 58% of the total sale of PV is utility vehicles. So, SUVs are really gathering a lot of momentum. And this momentum will continue in 2024, yes, while there is the election here. So, the growth may not be as robust as what we have seen in the past 2 years, but it will still be a decent growth that we are all expecting in 2024 as well.

Coming to commercial vehicles. Commercial vehicle production stood at 2.5 lakhs. So, we are well on track for 1 million commercial vehicles for the year. So, the industry -- I mean saw a 3% increase year-on-year. This is much lower than what we saw in the earlier years where we had very significant growth in commercial vehicle. But now this is tapered down that expectedly.

So, if you remember right, in the start of the year, we had predicted CV sales to be in just about double digits, which is what we are seeing. And this will definitely get affected in the coming year, going to the elections. That again, is based on the cyclical study that we have done over several past election cycles, where we see a little muted growth in commercial vehicles because the CapEx decisions as far as government is concerned, it takes some time. However, having said that, I think we all know the Indian economy trend and the strong foundation that it is on. So we have nothing to worry at all in terms of the longer-term outlook.

Coming to 2-wheelers and 3-wheelers, this has been encouraging that we have seen a notable recovery in 2-wheeler segment after the festive demand. The favorable momentum extended to Q3 with sales volumes reaching 55.88 lakh units, which is a year-on-year growth of 19%. The upstream is attributable to various factors, including festive season, elevated rural sentiment. As you know, the sentiments were very depressed post-COVID, but they are slowly changing, thankfully. The wedding season, of course, also played a part in this growth in the 2-wheeler sales.

In the electric vehicle segment, the sales surged by 34%. So this, of course, is much less than expected. I mean when we envisaged EV sales pre the benefit is going away in June. So, after that, obviously, we have seen a speed breaker in electric 2-wheeler sales. So, we are seeing only a 34% growth with the same figure in the previous years used to be 200%.

So, this is likely to get some flip, we'll have to see as to what the government is stand on this. We all know also that the FAME 2 the end date is March. So we'll obviously how this pans out in terms of the government policy. The total domestic sales reached 2.61 million units reflecting substantial overall growth of 14%, domestic demand is robust across variants, particularly electric mobility.

Coming back to the slides, of the presentation. If we go to Slide 7, this is a 9-month performance, where I already shared that we did INR2,484 crores for the 9 months so far with EBITDA of 8.7% and PBT of 7.2%. Balance sheet cash position of INR214 crores, cash flow from operations to the tune of almost INR100 crores compared to INR21 crores inflow in 9 months. And capex, we incurred about INR50 crores during the period. Slide 8 is, again, the financials in a different format. We already discussed that, so I'll move to Slide 9, which is the trend. So, as you can see, the good part is ROCE continues to be strong at almost 32% and margins, the improving trend is very, very linear.

I then move to Slide 11, which again tracks year-on-year performance for the past almost a decade. And you can see again the trend of EBITDA margin improving, the ROCE at 32%. And moving to Slide #12, again, several ratios here, which, again, I'll not spend time on.

Coming to Slide 13, which is the revenue mix slide. You can see that 2-wheelers is now 61%, passenger car is 24%. Obviously, we are also seeing increased diversion passenger car. And of course, in terms of both Gabriel business as well as the overall passenger car industry which we just discussed. Channel mix remains largely the same. 86% being OE, 12% is aftermarket and 2% is exports.

Slide #16 is the Core 90 initiative, which we have been continually discussing with you, which has been the basis and the foundation on which we are trying to drive the margin improvement.

Slide 17 shares our vision, which we have defined pre-COVID that's why you'll see still a vision 2025. We do not want to change the date. We all know COVID took away 2 years, but we said we'll be among the top 5 shock absorbers in the world as manufacturing is concerned, which is based on 4 cornerstones, exports, domestic dominance, M&A and technology. So, I'll spend a little time on each of this as to where we are.

Exports, we did about INR23 crores in the quarter which is flat. But however, here, we are working on big order as far as passenger car is concerned for exports, not yet finalized. In addition, we also have some 2-wheelers -- 2-wheeler orders from 2 European customers, which we are working on. These are in final stages, so we are not yet able to share a firm LOI, but hopefully, in the next quarter, we should be able to share that, and we'll be able to convert that into a firm LOI as far as exports is concerned, in 2-wheelers.

Coming to Slide 20, which is the domestic dominance pillar. Here, I'll come to the individual segments. This is on Slide 21, which you can refer to, which shows the performance on 2-wheeler and 3-wheeler. So here again, we have had a 32% market share. We have also got some good new orders. We have won on a TVS new platform. We've also launched in the last quarter the Aprilia RS 440, which is with the inverted front fork. So this is a mass production vehicle with inverted front fork by Gabriel. We also are working on a semi-active suspension with TVS. We have had several trials overseas as well as in India. And we have also won new EV platform from TVS. Here again, in 2-wheelers, I'm glad to share that in Bajaj, we have won Platina business, which we were not there earlier, and we are also working on some other, let's say, marquee brands of Bajaj for some possible new orders as well.

Going to Slide 22, which is the EV. It continues to be strong. I mean, our business is quite strong on this front. And we have won new orders, as I said, about TVS new EV platform, we already got that. We have won the Suzuki EV platform, which will be launched towards the end of the year, Suzuki 2-wheelers. The OLA motorcycle, of course, we are on that as well. So our EV penetration hopefully should continue and sustain at the good levels that we have seen so far.

Coming to Slide 23, which is passenger cars. So we have a 24% market share. Our market share which Maruti increases every quarter. And we are also happy to share that we have won the Swift platform as second source for Maruti, just to share that Gabriel has never been on this platform, the Swift and Dzire platform, which is a very high-volume platform for Maruti. But now finally, we have been able to break through as a second source. But nevertheless, we have a good opportunity to increase our relationship with Maruti Suzuki. We also have one Tata Motors Curvv EV platform. That is the first EV platform that we'll be working on Tata. We are also working with Tata Motors on another EV platform, but hopefully, that we'll be able to confirm in the next quarter because the discussions are yet in the final stage.

We also have won the MQB 2.5, which is a new platform of Volkswagen. Currently, the vehicles that you see is in MQB 2.0. I mean the Kushaq, Slavia and Taigun. These are the MQB 2.0 platform. So, we have also won the 2.5 platform.

Slide '24, that shows pictures of the SUVs. We just disclose that SUVs form 58% of the market now. So here, I'm happy to share that Gabriel is very well entrenched with all the SUVs. You can see right from the Skoda Kushaq, Volkswagen Taigun, Toyota Hyryder, which shares the platform with Suzuki Grand Vitara, the Suzuki New Brezza, Mahindra XUV, Mahindra Thar, Mahindra Bolero and Suzuki Jimny and of course, the Citroen PSA C3 as well. Coming to Slide number 25. This is on CVs. Yes, we continue to have a dominant market share of almost 90%. So we are on all platforms that are being produced in India by India OEMs.

And also, as far as the DAF Netherlands is concerned, we are already working on axle dampers. We were only on the cabin dampers. Now that business has grown based on the confidence and the delivery from us because we are a Zero PPM supplier, we have won the award, two years in a row. In fact, this year also we should get the award. So based on that, they extended us to the axle dampers, which is under development right now.

Slide number 26 is the railways. As I always say, the volumes are small, but we have had a good growth build on, of course, recovery of the railway production and share of business is going up, I mean, to a mature stage. So, our growth in this has been almost 40% compared to the quarter last year.

Aftermarket continues to be strong. We did about INR104 crores of sale in aftermarket in Q3. So, we'll continue the good work here. We have already launched several new projects, new products as well in this and we'll continue to do so going forward.

Coming to M&A. We all know, I mean, the Inalfa, we have tied up with them. We announced this on May 9, and I'm happy to share that in December, we delivered the first production sunroof to Hyundai. And in fact, in the month of January, we have started production at full scale level. So that's really record of getting the plant up to scale and up to speed. We are supplying for the Hyundai new CRETA, which you have seen that got launched in the month of January.

This is a, I must say, a very satisfying ramp-up that we have done. Thanks to the team and great support from Inalfa. –If you refer Slide number 30, you can see the pictures. We have shown the plan view. This is how the plant looks as of last week and the internal view as well as how the assembly line and the polyurethane line. So, we are producing here almost at the rate of 300 to 400 per day. This will only keep going up.

And lastly, on the technology. We have started the tech center in Belgium in Genk. We have now moved to a larger premise, which also can develop as our workshop. Earlier, it was only an office. Now it's an office plus workshop. So, we can do some trial and treatment as well. We have now in addition to the CTO, I mean who is Mr. Koen Reybrouck group and Expat, we have also added one more person expert in the suspension field. We'll also work with Formula 1 racing teams. He is also onboard, and we operate sort of Belgium. Coming to the tech centre, if you refer Slide number 34, we have seen the picture of the new tech center in 4-wheeler as far as Chakan is concerned, we've also done a small facelift of our Hosur tech centre, which we had inaugurated in December 13. So, we decided that we should also do a refresh and renovation of the tech center. So that is complete now. So not only have we done a facelift in terms of aesthetics, but we’ve also increased space inside and added some more validation equipment where we can meet the market demands much faster. So that's about the 2-wheeler tech center. And just if you go to Slide number 36, we won the Bajaj award, Platinum Rating Award for two of our plants, both Chakan and Nashik both the supplying plant won the platinum award which we are very proud of.

At the CI convention in Hyderabad, we won the Manufacturing Champion Award and I'm happy to share the Sustainability Champion. The sustainability is, of course, very, very dear to us as a company as employees and as a group as well, we continue leading a lot of efforts in this aspect and looking at every investment that we do or every product that we make with the lens of sustainability. So, I'm glad to share we got our industry recognition for the sustainability.

We already had an award from Royal Enfield for sustainability. So, we'll continue our efforts to improve our journey on sustainably. And just to share, we have just released our ESG report, which will be on the website very shortly. We already finalized the report, and you will see it on the website very shortly. So that's quickly about the quarter that went by. And you know that I have shared with you.

So, I would now end my address here and going to listen to your feedback and your suggestion. Now thank you. Over to you.

Moderator: The first question is from the line of Mumuksh Mandlesha from Anand Rathi.

Mumuksh Mandlesha: Congratulations on the healthy margin performance, market share gains and the robust order bills and getting the sunroof plant ready in a short period of time. Sir, my question is on the sunroof division. Can you provide more update in terms of new orders or RFQ bills from the Korean and other OEMs? And, the first model, which we are supplying is seeing a robust demand in the market. So how do you see the revenue in the first year? And lastly, can you also update on the status of JV formation?

Manoj Kolhatkar: Okay. Thanks, Mumuksh for having your appreciation. Coming to sunroof, your question specifically in terms of orders for Korean. So, as I said, we are supplying for the CRETA facelift. And we already got the order for a new Kia platform, which we're working on. The effect of that will be in 2025, early 2025. So that is what we have in hand right now. In addition, we have got RFQs, because this product, of course, we can get only when completely new vehicle comes on the planning space as far as the OEM is concerned.

So, we're working on RFQs from 2 other OEMs right now in advanced stages. So, we'll have to wait for maybe a month more for before we can confirm anything on that front. So, a very good interest from all OEMs in terms of extending RFQs or showing their interest. Yes. And in terms of your last question of what could be a likely order and you know, Mumuksh that we do not share any guidance in terms of revenues. I really can't do that. But happy to share that the sunroof plant has started producing at a, as I said, currently at almost a level of 300 to 400 per day.

So, JV formation, to your question. Yes. I mean the file is moving from its move from the Ministry of External Affairs to MHI heavy industries, it has been cleared by both. Now as we going to the next stage. So, I think quite surely, the next quarter, we'll be able to share something positive on this. But however, as we have discussed, we have a PLA with Inalfa till the time the JV is formed. And I must say that getting -- I mean, excellent support from Inalfa, Korea and in Inalfa, Netherlands as far as this business is concerned and in fact, it kind of SOP ramp-up will not have app, they have very strong support. And how the expat operating from Chennai plant. And now yes, I'm happy to share that most of the expats have left, and it is the Indian team largely that is now delivering this stable production demand.

Mumuksh Mandlesha: Got it, sir. So, can you also provide an update on the new product line opportunities which we are scanning and when we can see the next coming, sir?

Manoj Kolhatkar: Yes. I think we are working on, I mean, a couple of them right now as we speak. And as we have discussed, the coming financial year, our target is to announce at least one more. I mean that we are working towards that target. But right now, I can only share that we have proactively working on two opportunities.

Mumuksh Mandlesha: Got it, sir. Sir, on the EV side, you're seeing the E2-wheeler, E3-wheeler revenues growing 40% to 60% growth. Can you indicate how you're seeing the key customers like OLA, TVS from Ather and a planning to ramp on EV production in next 1-to-2-year perspective? And how are you seeing the getting orders from Bajaj for the EVs and the super-premium motorcycle?

Manoj Kolhatkar: What is your question of Bajaj?

Mumuksh Mandlesha: How you are seeing the getting orders for the Bajaj EV models and the super-premium motorcycle models, sir?

Manoj Kolhatkar: Okay. Yes. So, in terms of EV business, I think all the OEMs the top ones, given a robust order book for us. TVS is ramping up, Bajaj is ramping up, so we don't suffer to Bajaj EV. But Bajaj also has first plans of ramping up. OLA is not only ramping up you're seeing that in terms of their market share, and we continue to be number one. Ather also given demand projections. So, we are seeing overall a good demand projection.

But yes, as I said, we, of course, have to see what happens after March because while we had done the same prediction earlier. But after June, we saw things change. So, if there is no change in terms of the benefits being extended by government as far as FAME 2 or if there's any FAME 3, we don't know how it goes. We'll have to wait and watch.

But the good part is the battery prices have come down. Lithium prices have come down. So, you've already seen some correction in particularly the passenger vehicles. I mean yesterday, MG Motors dropped the price by INR1 lakh, over INR1 lakh. So, we see that if that continues, then even if the benefit goes, the demand for EVs will continue to grow. So that is -- that's on the EV front.

And in terms of Bajaj, I mentioned they are planning to ramp up the EV, but we are not on Bajaj EV, on the Chetak, I mean. While we are discussing something, but we are not on Chetak right now. As far as the motorcycle is concerned, we have got the Platina, and we are working with them on some premium models as well.

Mumuksh Mandlesha: Got it, sir. And just to Rishi sir, can you say the capex guidance for FY24 and '25 for the stand-alone and the JV? That's all for my side.

Rishi Luharuka: Sure. The usual number of INR120-odd crores is what we are planning for this year, while we have not formulated our budget, closing that in March. But we see at this point in the 2 programs depending upon the LOIs, we would be investing. But as of now, Rs. 80 crores of investments have gone into the JV.

Mumuksh Mandlesha: You mentioned INR80 crores, right.

Rishi Luharuka: Yes, INR80 crores.

Moderator: The next question is from Nihar Shah from Enam Investments.

Nihar Shah: And great to see the margin and new orders coming through. Just had one clarification that I wanted on the expansion plan that you mentioned. Slide talks about the electrodynamic damper. Can you just throw some light on if this is a new product or a new type of suspension that we're developing or is this already been in production? And how do we see the future with this?

Manoj Kolhatkar: Are you talking about the adjustable electronic hydraulic damper, right? That's what you are referring to?

Nihar Shah: Yes. So basically, you mentioned electrodynamic dampener on slide 14. So just wanted to check if that the earlier adjustable dampener or is this something that's developed new by Gabriel?

Manoj Kolhatkar: No, it's actually -- this is the capex. This is not a product. So, what we have listed in 14 is the capex for FY '23. So it's a electrodynamic damper testing machine. But if you raise the question on the electronic damper, we are fine-tuning the final round of fine tuning for XUV we are doing, which is a demonstration product mainly from Mahindra. We have already done that and shown to the Mahindra tech team, including the CTO. The initial feedback was good.

But now we are refining that in Europe. And on the 2-wheeler front, there has been, I must say, surprisingly very good interest in this product. And we had a joint tuning exercise with TVS came in Belgium. They came to Belgium to do their right tuning themselves and check it out. And now we are also developing the same thing in India, so that we can do more testing here in Hosur. So let's see how it goes. It's early days for 2-wheelers, but I must say, we are surprisingly and pleasantly quite happy with the traction it has seen in 2-wheelers.

Nihar Shah: Got it. That's great. Also, a couple of questions on the order wins that you mentioned. So one is on the Swift platform, right? And that saw a big volume at platform. What is the typical share that the second source gets in these kinds of products?

Manoj Kolhatkar: Typically, it's -- we operate on a 70-30. So I can source, it's 30%.

Nihar Shah: Understood. And is anything changing from Bajaj Auto side, typically in a lower shelf business with them. Is something changing in terms of other than on the Platina or the premium side that you're discussing with them?

Manoj Kolhatkar: No, I think the only thing as you saw, we got 2 awards, and we've been getting this platinum excellence awards for quite some time now. So as far as our quality is concerned, we are quite well rated in Bajaj. So I think it's somewhere -- when you start delivering a good product consistently. Obviously, you have to show some results, positive results, I mean. That's what we are seeing. Hopefully, we should convert this opportunity. So Platina is a good start, and I'm sure we'll be able to do something more.

Nihar Shah: Got that. And the last question from my side is recently, we've had a couple of exchange filings regarding a lot of management reshuffle that happened in Gabriel. Can you just talk about the transition that's happening and how they are going about that and any changes to the structure?

Manoj Kolhatkar: Yes. I mean, these are regular changes that we do, not only Gabriel but even at group level, where it's career planning of individuals. So this is, in fact, as you know, this is one of the strengths of ANAND Group. So we have got like my sunroof plant head is and the deputy CEO is from ANAND Group company because we wanted a resource who could come on board without affecting the Gabriel team. So we got from ANAND Group as a career planning for this is on sake. Similarly, Atul Jaggi was our Deputy Managing Director, he will be moving to Mahale Filters to head that business as MD which is our JV with Mahale Germany for air filters, oil filters and fuel filters and some more air intake manifold and some new EV products, which the partner has. And Puneet, who was heading the 2-wheeler also moved on to other smaller JV of ANAND, which is with Haldex exterior in the commercial vehicle space. So we already replaced that. So we had a fair bit of planning done. So we are happy that Anand Sontakke who headed both business development and sourcing in Mahale Thermal Systems. And then we moved to Mahale Filters as Head of the PNL and he had moved out of the group, and he has joined us back, a very seasoned professional and proven track record.

So he's joined us as the head of 2-wheeler business. So these are changes, but happy to share that we were able to attract one of our good talent back into the group. So he will take over the 2-wheeler business. But rest remains the same. There is one more change that Vijay, who was our Head of Quality, he attained superannuated, we had extended by 6 months. So we had planned that and we moved one of our resources called up a named Abdul Wahid, who was earlier in supplier quality and again, a very good performer. We have moved him into the place of Vijay as part of the succession planning.

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

Viraj Kacharia: And congratulations on good set of numbers in such a challenging environment. A couple of questions. Firstly, if you can just give some perspective in terms of the share of Gabriel, the premium motor secular premium 2-wheeler space. And similarly, in the higher ticket space in PV? So based on the pipeline and the order wins we have currently, how our share would have changed?

Manoj Kolhatkar: Thanks for this. It was nice meeting you at the Bharat Mobility show.

Yes, we did discuss on the sidelines as well on several aspects. So this particular question on the share in premium, we don't have it off hand right now, but we can revert back to you. But just to share that in the premium segment in terms of the passenger car, we just shared the picture of the SUVs that we are there, which is a high-growth area. So they're not premiums SUV but the higher-end SUVs, which are sold in India.

So right from the Suzuki Grand Vitara and Toyota Hyryder offered in the hybrid version. You know the demand is very strong there with a huge waiting list. The Skoda Kushaq, the Volkswagen Taigun, the Mahindra XUV, Mahindra Thar and the Suzuki Jimny. So these are all, I must say, they are on the higher end of the SUVs. So if you can refer to Slide 24, you can see that our share is 35% on the utility vehicles. Yet premium vehicles this, in fact, will be even better. But let me revert back to you on these points afterwards.

Viraj Kacharia: Sure. Now just on the initiatives in export and aftermarket, right? I mean some time back, we said the aspiration of more than 20%, 25% of revenue from these 2 segments put together. Exports, we earlier talked about us engaging in advance stage that with respect to VW and other few other OE for supply. Any update you can give in terms of export, if any of those has materialized on the PV side.

Manoj Kolhatkar: Yes. So I can tell you that -- and I have already shared that it takes time, but both 2 key OEMs is that we have had -- we have had one very important visit last week, one of the OEM who is a global purchase head –of OEM for the entire globe as far as this commodity is concerned.

We had his visit, and it was a very, very positive visit. And he's assured that we will look at opportunities globally. So it's a good breakthrough. And the second OEM, which we are discussing with, they are visiting us in the next week, not next week, on 23rd to be precise. So again, the head of that commodity globally, she is visiting. So that will also be an important thing, which will pave a new way as far as our exports with these 2 globally large OEMs are concerned. So I can only share this right now, both are on positive. We have been working on both of this. So it's on the right track. Yes, it will take time.

One of them will materialize faster surely. I can say, I mean we can get an order in the next, hopefully, in the next 3 months. The other one will take a little more time. But yes, positive developments on both the OEMs, which we have been working with.

Viraj Kacharia: Okay. But these are typically single model, single plant order or when you're interacting at the global level, these are more spread across plans for more of capacity transactions?

Manoj Kolhatkar: Geographies.

Viraj Kacharia: On the -- just two questions. In the past, we talked about pricing as a strategy to gain share back in PV. And last few calls, we've been talking about recovering the pricing piece. So in terms of the profitability in the PV, the thinking was to bring it to a normalized level as what you see in 2-wheelers and others. So in that journey, where would we be now? And incrementally when we're getting these new orders or the bidding for new pipeline, is that strategy still by and large there or now we have more evolved in terms of the overall offering or solution and that's our early here?

Rishi Luharuka: Viraj, Rishi here. Your question had the answer. 2-prong strategy broadly. One is where we require a customer penetration or a model penetration where the strategy of price may be required. Having said that, the Core 90 program thereafter kicks in to ensure that the profitability is normalized. Happy to share that YTD December has been very heartening in terms of the profitability margins per passenger car.

Are we there where we want to be? The answer is, no, there is still some scope of improvement there, but we've seen a significant improvement in the volumes of passenger cars.

Viraj Kacharia: Okay. Just two last questions. One is from a...

Moderator: Mr. Kacharia, Maybe request you to rejoin the queue. As there are more participants. Thank you. The next question is from Shashank Kanodia from ICICI Securities.

Shashank Kanodia: I just wanted to check on the sunroof part, sir. In one of your comments, you mentioned that the wrap-up of this facilities dependent upon the new model launches because I think the initial standing was that it's an import substitution product and ready market given by Kia and Hyundai. So if you could please clarify.

Manoj Kolhatkar: Yes.. Shashank, let me clarify that this is an import substitution, of course, like this this new Creta that has been launched. So it's an import substitution from them. In fact, we have some import stocks, which we'll get over this month, and it will be a complete switch over to localized production by Inalfa Gabriel Sunroof Systems. Similarly, Kia EV is the same. But in terms of new models, I mean, obviously, that's now when they develop a new model, it will be from day 1 with the localized sunroof.

Shashank Kanodia: Right sir, would you still be qualifying the supply to existing Hyundai and Kia models, right?

Manoj Kolhatkar: It could have a supplier Kia completely.

Shashank Kanodia: Right. And sir, since you mentioned that you already operate in roughly 400 units to a day. So by FY '26, we should expect this plan to wrap up to full capacity of 2,00,000-odd units?

Manoj Kolhatkar: FY '26.

Shashank Kanodia: Or do you expect that to happen in '25 itself?

Manoj Kolhatkar: Again, do you are subject to volume OEs, mean, naturally, as I said, this is on a single store basis. So whatever the OE makes will be with our sunroof insurance that we have. But in terms of how their volumes as far as the end market is concerned, we can't take a guarantee based on the volume indications that we have, FY '26 should be close to our capacity.

Shashank Kanodia: Sir, at that peak capacity of in FY '26, what is the EBITDA margins and PAT margins that we intend to clock?

Rishi Luharuka: The double digit is what we are targeting with 2 lines and like 80% capacity utilization.

Shashank Kanodia: Right. And sir, one thing on the 2-wheeler's front. So the CV and the PV guys have largely alluded to some amount of demand slow down. But 2-wheeler space is picking off well. So your assessment of the 2-wheeler industry and with all this market share growth, are we supposed to be in double-digit in FY '25 in terms of revenues?

Manoj Kolhatkar: You mean revenue growth?

Shashank Kanodia: Yes, sir.

Manoj Kolhatkar: Well, again, I said we can't share. But yes, I mean, that's the idea. Over the past, we can see over the past several years, we've been trying to stay ahead of the market growth, which we have done. Yes, that will be endeavor, for sure.

Shashank Kanodia: Right. And sir, any aim for double-digit margins in terms of timeline, let's say, 2 years, 1 year, anything you can quantify?

Manoj Kolhatkar: Well, as we have put this year. So we certainly will go to 9-plus-percentage. So double digit would be one more year.

Shashank Kanodia: Okay. So FY'26...

Manoj Kolhatkar: I won't specifically say a year but, yes, that's the idea.

Moderator: Next question is from Arkopratim from Sanjay Agarwal Broking.

Arkopratim: Okay. Based on your latest result, what is the corresponding volume growth rate? And additionally, how much does the price decrease or increase in that quarter?

Moderator: Can you repeat your name? I couldn't get your name.

Arkopratim: My name is Arkopratim and I'm calling from Sanjay Agarwal Brokings.

Manoj Kolhatkar: Arkopratim, so your question is also, can you repeat your question?

Arkopratim: Yes, yes, sure. Based on our latest result, what is your corresponding volume growth rate? And additionally, how much does the price decrease or increase in that quarter?

Rishi Luharuka: So also essentially a large part of the reduction in sales as compared to the second quarter is going to be decrease in volume. There is a reduction in the commodity prices to the extent of INR8 crores to INR10 crores, which have also reduced the value of sales that you see for quarter 3.

Arkopratim: Okay. And one thing I want to ask is that what relates to the increase in operating margin? Could you please elaborate on any potential changes in OPM that might be anticipated for this current quarter?

Rishi Luharuka: A lot of things here. We've been speaking about this in all the investor calls that we have a Core 90 programs. Largely, it takes care of all the heads of P&L and the working capital management. We have dedicated groups which work on that throughout the year in order to reduce the cost or improvement in margins. It includes customer price correction. It includes reduction of wasteges. It also includes a digitization and an automation journey for improvement in the operating efficiency. So these factors, we have been doing it for the last couple of years, and the results of which are now visible in a quarter where the volumes were lower, and yet we could maintain our EBITDA margin.

Arkopratim: Okay. And my last question is, what is your expectation about the demand scenario of the current and coming quarter compared to last quarter?

Manoj Kolhatkar: Typically, also, the last quarter is robust. Jan, Feb, March is, I would say, it would be, if you want a comparison, it will be more like Q2, not as good as Q2 because Q2 has a festive season thing, but somewhere in between Q3 and Q2.

The typical cycle that the industry follows. So I don't see any issues with that. And going forward from next year as an industry due to election here, we won't see as good a growth as we saw in FY'24. There is -- certainly, there will continue to be good growth in terms of 2-wheelers and passenger cars, but maybe CVs may see a little bit of a flattish growth. That's what's we are expecting.

Moderator: The next question is from Viraj Kacharia from SiMPL.

Viraj Kacharia: On aftermarket piece -- so if you look at the presentation, I think a majority of the business is still driven by shock absorber and related product. And so, I want us to understand the growth in terms of, say, product or distribution both in India and across, what will drive the growth in this business? So last few years, we had a very good execution and growth seen in the business, but just want to still look next 3, 5 years, what are the drivers of business?

Manoj Kolhatkar: Viraj, the vehicle part only continues to increase. While we have seen the same growth in passenger cars and 2-wheelers as far as region is concerned. But if you see, particularly in passenger cars, the second-hand car sale has been the highest ever. So, if you add that, there has been a huge increase in overall purchase of cars.

And when you buy second-hand cars, obviously, there is scope for some more aftermarket parts getting into because people would want to refurbish the cars. And I don't think this will change. As long as the vehicle part goes on increasing, which is increasing both in terms of the new car sale and second-hand sales. So we see the aftermarket demand continuing to hold on to continue to improve.

Viraj Kacharia: So what are we asking in terms of item on the same gaps in the portfolio or any other new products you would like to add on even by the distribution, right, in India or a piece of view? Do you still see gaps or compared to where the potential would be, just trying to understand in that sense.

Manoj Kolhatkar: We are adding new products. In fact, in next year, we have already identified a couple of new products to be added to our kitty in terms of the aftermarket. So we are, one we do is scanning horses and we are in touch with our dealer and distributor network as well as to what they would want us to add because we also have to be allowed to their needs and requirements. So we keep doing that and we should be adding a couple of products next year where aftermarket kitty.

Viraj Kacharia: In terms of second question on JV piece. The understanding was that in addition to CRETA, there will be an import substitution of the new Seltos as well. So initially, we will start with 2 models and then further ramp it up in terms of new wins.

Manoj Kolhatkar: No, no, no. I think this is not understanding. We have clearly stated that we have got the localization of the new CRETA, which is what is currently in production. And the second, we said was a new platform of Kia, not the replacement of Seltos.

Viraj Kacharia: So if you look at for example, on the Kia, Hyundai and portfolio in India for now. What are the models they would be supplying? And if one has to think in terms of, say, import substitution of those over the next two, three years, what can come to us in terms of a JV?

Manoj Kolhatkar: Yes. So CRETA is one, which is a major platform. And in fact, the CRETA, the new CRETA face lift also, which is planned maybe a couple of years down the line, even that is very likely to come our way. Obviously, Kia, this new platform is there, and we are working on something new with Kia as well. There are some platforms which we are not there currently.

Rishi Luharuka: I'm correct in your understanding, Inalfa currently does not apply to any OEM in India other than for Hyundai CRETA program. And thus, the input substitution in the JV was meant for CRETA only. The rest of the programs are all that we will win in the JV itself.

Viraj Kacharia: Okay. I understand. On margin, when you say double-digit EBITDA margin for a JV, based on the order which you're seeing right now, the daily run rate already at the healthy utilization. So this margin is based on the assembly setup which we have currently right. But as we kind of see improvement in scale and increased localization, on a mature basis, what is the margin in this business?

Rishi Luharuka: We don't give the guidance, Viraj, so unfortunately, difficult to fathom. But to tell you that because it's the localization of a line or a product that is already there with Inalfa in Korea, there is not a very steep improvement in margins because of operating efficiency coming around. So the volumes will also drive additional cost of capex and overheads as well.

Moderator: The next question is from Jyoti Singh from Arian Capital. Please go ahead. Jyoti Singh from Arian Capital, you may go ahead with the question. There seems to be no response from the line of Jyoti Singh. We move to the next question. Next question is from the line of Priyaranjan from HDFC Asset Management. Please go ahead.

Priyaranjan: Just two questions. What will be the EV sales in our total revenue right now? And secondly, on the electric suspension -- electronic suspension side, what will be the kind of ASP increase if we go for the electronic suspension from the conventional one? What can be the ASP increase you can invest? And when do we expect that at least a couple of these models have been in 2-wheeler and 4-wheeler, we will start SOP?

Manoj Kolhatkar: So I mean as far as your EV share in our business right now, the sales is roughly -- it's growing, but it's roughly about 5%, which is pretty similar to the market penetration that you are seeing in India, it's 5%. Yesterday's article I read was 5% penetration. So we are at pretty much at the same level. That is what we are seeing. And your second question was on the semi-active suspension?

Priyaranjan: Yes.

Manoj Kolhatkar: So there, yes, there is a significant bump up in terms of price. The price will go to almost 3x. Whatever is the price today, it will be almost 3x that price for the semi-active suspension, right? Now your last question about when would be the likely SOP. For TVS, it's right now, even they have to get continued the product in the concept. And yes, also the price will have to be absorbed by the customer. So I don't think it will happen before at least under 2 years, not before '26.

Priyaranjan: Okay, okay. And when we talk about the new products, so one product which we have got the sunroof, which is we have gone through the joint venture route. So next 2 products, which I think you are actively looking at. So will it be like a similar joint venture kind of arrangement or it can be within the company as well, some product line, which you can develop on your own?

Manoj Kolhatkar: Yes, it could be a mix of both, yes, absolutely. And even if we do an acquisition, it might very likely be with a majority.

Moderator: Next question is from Alisha from Envision. Please go ahead.

Alisha: Two questions. First, in terms of margin side, the aspiration is to go to double digits, so over the next 1 to 2 years, a large part of cost saves from Core 90 has already led to 150 basis points improvement from last year. Going forward, like you said, mix shifting to PV, they will be slightly opportunistic as it get negated by an incremental savings from Core 90. So what's the incremental levers you have for another 150 basis point expansion to move to double digit?

Rishi Luharuka: So the way I see this panning out is that the cost reduction drive also has to continue in order to maintain the inflationary pressures and the salary increases that we are expecting in the next year, that's one. Second is that there are still opportunities in terms of reducing the overhead by effective utilization of the operational efficiency. And in that journey, digitization should and will play a big role.

The third piece is with regards to the raw material cost and its stabilization there, including commodity indexation. So that's -- while that's an ongoing exercise, the endeavor here is also to start looking at more prongs in terms of make and buy if that will help us improve on the improvement. Fourth is with regards to the geographical spread that we have. So if -- given the endeavor that we have on exports and aftermarket, increase in the export is, we should be also getting some additional benefit in terms of profitability from that. So that's broadly what I envisage the journey to a double digit.

Alisha: On 9-month basis, the 2-wheeler, 3-wheeler revenue seems to be down by more than 25%. Is this largely because of slow down on the EV 2-wheeler side? Or reduction in contribution of that led to this decline? And how well could I understand this?

Rishi Luharuka: No, the cyclicity of the quarter is what is driving the volume down.

Alisha: I'm comparing 9 months.

Rishi Luharuka: The commodity reduction cycle impacts the overall pricing, but in terms of volumes, we are higher than previous year.

Moderator: Thank you very much. Due to time constraints, we'll have to take that as the last question. I would now like to hand the conference back to Mr. Manoj Kolhatkar for closing comments.

Manoj Kolhatkar: Thank you. Thank you for all your queries. I mean we -- as I said, hopefully, in the next quarter, we should be able to share, not hopefully, for sure, the numbers of the sunroof in terms of the volume that we did but it's going very well. And also some additional news on the exports.

If I said those discussions rectified. But now to that, we look forward to a very good year next year as well and continue to put our efforts in improving the including and sustaining the margin improvement that we have done. So thank you, and I look forward to the next call. Wish you all again, a very happy new year.

Moderator: Thank you very much. On behalf of Gabriel India Limited, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.