“Gabriel India Limited
Q2 FY25 Earnings Conference Call”
October 24, 2024

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MANAGEMENT: **MR. ATUL JAGGI – MANAGING DIRECTOR – GABRIEL INDIA LIMITED**
MR. RISHI LUHARUKA – CHIEF FINANCIAL OFFICER – GABRIEL INDIA LIMITED
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Moderator: Ladies and gentlemen, good day and welcome to Gabriel India Limited Q2 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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

I now hand the conference over to Mr. Rishi Luharuka, CFO, Gabriel India Limited. Thank you, and over to you, sir.

Rishi Luharuka: Good morning, and a very warm welcome to everyone present on the call. Joining me today, we have Atul Jaggi our Managing Director; Nilesh Jain our company Secretary and our IR Advisors, SGA. Let me begin with introducing our newly appointed Managing Director, Mr. Atul Jaggi. Mr. Jaggi holds a Bachelor degree in Mechanical Engineering from Thapar Institute of Engineering and Technology; a Post Graduate Diploma in Business Administration from IMT Ghaziabad and a Masters in Quality Management from BITS Pilan.

Additionally, Mr. Jaggi is a certified Six Sigma Black Belt and has completed prestigious leadership programs including the VLFM programme, The Advanced Management Program from MIT Sloan and the Oxford Strategic Leadership Program from University of Oxford. With 25 years of rich and diverse experience, Mr. Jaggi has led key areas like maintenance, supplier development, corporate quality and manufacturing excellence. Over the years, he has played a pivotal role in numerous initiatives within both Gabriel India and ANAND Group, like Quality Circles, VSME.

Under his leadership, Gabriel India's 2-wheeler BU and CVBU divisions have grown significantly over the last few years. These businesses have earned numerous accolades at national and global platforms while building a strong business pipeline and implementing robust manufacturing and quality systems. Before handing over the call to Mr. Atul Jaggi to discuss financial performance and industry highlights, I would like to extend my heartfelt thanks to Mr. Manoj Kolhatkar whose outstanding leadership as MD has been instrumental in shaping Gabriel India's future and journey to his current standing.

On behalf of the Board of the Directors and entire organization, I express my deep gratitude for his dedication and wish him all the very best in his future endeavors. With this, let me invite Mr. Atul Jaggi to discuss the performance highlights for the quarter and for the half year ended September 30th .

Atul Jaggi: Good morning, everyone present on the call. Thanks, Rishi, for the warm introduction. So I would like to walk you through the Q2 FY '25 business performance along with the industry highlights. We have uploaded our results and investor presentation for the quarter ended 30th of September 2024 on the stock exchange and company website. I hope each one of you had a chance to go through the same. I'm also pleased to announce that the Board of Directors have declared an interim dividend of INR1.75 per share, having face value of INR1 each.

I will now give a brief overview of the company's operation and take you along the presentation. We had another strong quarter in the Q2. Our operating revenue for the previous quarter increased by 6.9% year-on-year reaching INR924 crores. This growth is mainly attributed towards improvement in the 2-wheeler and the EV 2-wheeler sales. EBITDA margins for Q2 FY '25 remained stable at 8.7% as compared to Q2 FY '24. PAT stood at INR53 crores, showcasing a 12.2% Y-o-Y growth.

Let me give you some highlights on the industry dynamics, starting with the passenger vehicles now. In Q2 FY '25, passenger vehicle sales volume reached 12.5 lakh units, marking a slight decline of 0.6% Y-o-Y. This indicates softer demand in this segment. However, in the UV category, the utility vehicle category, it continues to perform well achieving the 12.3% growth during the same period, driven by the customer preference for SUVs and multifunctional vehicles.

This contrast reflects the mix demand pattern within the overall passenger vehicle sector, influenced by the environmental, economic and market-specific factors. With the sales figures for the first half of fiscal year was slightly below expectations, the outlook for the second half remains optimistic, particularly, with the upcoming festive season. However, despite the expected uptick the short-term outlook for automobile retail is cautiously optimistic.

Coming to the commercial vehicle side. In Q2 FY '25, the commercial vehicle sector saw a Y-o-Y degrowth of 9.2%. While exports in the CV sector exhibited strong growth of 16%, but the overall domestic demand remained weak existing at 11% decline. The overall dip in the demand was largely attributable to extended monsoon delays and unfavorable climatic condition which disrupted the market activity. Additionally, reduced spending on infrastructure projects significantly impacted the growth in this particular sector.

Looking ahead, the CV segment expects improved performance in the coming months, driven by new product launches and anticipated sales growth in the rural market. Better agriculture conditions following a good monsoon season are expected to boost the demand in this particular area. Now on the 2-wheeler and 3-wheeler segment, we saw an impressive growth of 13.1% Y-o-Y with scooters leading the way at 16.7%, followed by the motorcycles and mopeds which grew by 11.3% and 17.9%, respectively.

The 3-wheeler segment also showed a positive trend reaching 2.9 lakh units in sale, representing a 4.7% Y-o-Y increase. This robust growth in 2 and 3-wheeler underscores rising demand for affordable and fuel efficient transportation, especially in the rural and the semi-urban areas. The strong performance in this segment contrasts with the challenges faced by the passenger vehicle market, showcasing a clear shift in the consumer preference.

On the EV side, now at a global level, we are looking at around 85 million electric vehicles on the road and India already clocking 500,000 EVs in the same time frame this year primary driven by the various government initiatives. The ongoing growth driven by robust consumer demand increasing preference for the 2-wheelers especially again in the rural area suggests that the industry is heading for a record-breaking year. If this continues, FY '25 could see the 2-wheeler industry is setting a new benchmark in the automotive -- India's automotive sector.

So I would also like to reiterate that as we navigate the evolving automotive landscape, our company remains committed to innovation and adaptability. We take pride in being a market leader across the 2-wheeler, 3-wheeler, EV and the other key segments. Our active expansion of the product range reflects our dedication to meet diverse customer needs.

As the industry continues to advance, we expect our performance to grow in alignment with a robust focus on research, innovation and quality. We aim to deliver solutions that will not only meet, but exceed the expectations driving a sustainable growth. Our commitment to excellence reinforces our position as a trusted partner empowering our customers to thrive in the dynamic auto sector.

On that note, I come to the end of my opening remarks. I now request the moderator to begin the Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Yes, hi. Thanks for the opportunity and congratulations on your new role and wish you many success in the future. Just a couple of questions on the business. One is on the overall strategy. So what do you understand you've been with Gabriel for a very long period of time. You know the company quite well, but broadly into the strategy and portfolio and including new product initiatives, is there any rethink or is there any change in strategy you're looking at?

And just to add to it, what will be your top five priorities you're looking at in terms of the business. So that is the first question?

Atul Jaggi: Okay. Viraj, thanks for all the good wishes. See, as you rightly mentioned, I have been with Gabriel for now more than 24 years. So as far as the overall strategy is concerned, I was involved even in the last strategy cycle that we have built for the next 3 to 5 years. So I don't see a dramatic sort of a shift in the overall strategy that we have built. But yes, in certain areas, definitely, some renewed focus and for a little bit of extra push, we'll definitely be there.

Like just to name a few, say the export segment is one area where we would like to sort of expedite and push certain initiatives to meet our aspiration and our target on the export. This is one area and which will obviously impact the overall growth of the organization. Second area is on the margin improvement. So this is another area where I would like to sort of continue the push and maybe sort of rejuvenate and strengthen the Core 90 program that we -- I think we have been successfully running maybe with a little bit of peak as I get more into the nitty gritty.

Another area of focus is technology because, again, it is clearly -- it will clearly reflect the pace of growth that we are looking at. So these two will go hand in hand together. The fourth area is where I think we have been talking about it for quite some time. We were successful in with th Inalfa sort of expansion of the product portfolio. And I would like to definitely continue to push on the organic side to see what best can be done at a much faster pace.

So I think these are primarily the areas where I would like -- and I think most of them have been a part of the strategy. But yes, in certain areas, more focus, more resources is something that I'm looking at, at this stage. So while I get into -- I am able to spend more time. I think in our future interactions one-on-one meetings, I think I'll be able to share more.

Viraj: Sure. Look forward. Just a few questions on the subsidiary business. So is there now any -- I think post the decision by the government, we were looking at revisiting the terms in terms of royalty, tech license fee. So any update you can give? Has there been any arrangement, which has been entered into now with Inalfa

And similarly, will this continue to remain a wholly owned subsidiary or in the future, we may look to kind of -- if there's any opportunity comes, we may look to kind of convert this into a JV structure?

Rishi Luharuka: Viraj, thanks for that question. Our approach to this remains similar than what we had spoken last time. See, this is a strategic partnership, and the idea here is to be a part of the growth market. And both Inalfa and Gabriel, along with ANAND, we stand committed to making more head base. We have the tailwind with us with regards to being first few players in the country. And with our deep relationship with Hyundai, we certainly are working towards our plans.

Now coming to your PN3 application aspect, yes, we have had several rounds of conversations and discussions along with Inalfa. We are evaluating various propositions with which we can probably re-approach the government in terms of a fresh approval. But the contours of that are still in making. So we will be able to share it once we have revised our application.

Coming to your subsidiary part, till, I think, we received the PN3 approval. It will continue to remain Gabriel's 100% subsidiary. And -- but again, the -- whether we are subsidiary, whether we are holding, whether we have majority, those are aspects that are to be taken into consideration within the governing rules and regulations of the country. Having said that, the endeavor is to ensure that the business is properly and adequately funded, and all the growth plans that we have are being catered to. So that's the put as of now, we will come back with more details as and when we develop on this topic.

Viraj: Okay. Just two questions on this subsidiary. If you see the realizations in Q2 of this quarter versus Q1 or even Q4, there has been a very material increase in realizations -- unit realizations for the subsidiary. And similarly the gross margin has also moved up. So what explains the realization in the margin jump?

Rishi Luharuka: So interestingly, we had the SU2i which is the Creta platform which we have begun the operations with. In the last quarter, we have started supplying the Ps7i which is the Alcazar platform. And largely owing to that increased volume, we've been able to demonstrate some amount of operating leverage. Also, some benefits have flown in because of a little better localization of this product as compared to the Creta platform. But I would not read too much into the growth as of now. With some more time knowing the pressures of the market, we will see how the margins pan out.

Viraj: Sir because the same platform Creta also has other model variants. So one you talked about Alcazar and then you have Venue and other, so since you are a sole supplier of Creta and I'm assuming even for Alcazar, does that kind of naturally translate into an opportunity to cater to for the other model variants as well?

Rishi Luharuka: So interestingly, Viraj, in the sunroof business, no two platforms have the same sunroof even if the chassis remains the same. So for example, the Ps7i Alcazar is a much bigger sunroof as compared to the Creta. Venue is a smaller sunroof. And as far as supplier synergy is concerned, that can be achieved. But other than that, it's -- these programs are absolutely brand new from its inception of design itself.

Viraj: Okay. Just last question and I'll come back in queue. See, we talked about setting up a second line at a capex of INR40 crores-50 crores. And the current and the new lines, I'm assuming they will be fungible. So given Creta, given the volumes it is doing, we will be -- maybe at the year-end, we will be doing around 1.2, 1.3 lakh units. And even with the Kia model which we're expecting, the peak utilization would still will be probably a year away for the first line.

So when we're looking at adding a second line when the lead time also is quite less, maybe less than a year. So how are you looking in terms of product or customer mix as and what is driving the decision on the second line?

Rishi Luharuka: Viraj, a couple of data inputs. One is that Alcazar volume needs to be taken into consideration, one. Second is that Creta, the volumes are growing bigger in terms of the sunroof penetration. What we began with and now what we supply, there is already an uptick there. Third is that we already have a program Kia which we have won, which will start in mid of next year. That obviously would need capacity given the volumes that we have.

We've also won one -- a small volume platform, which is interestingly one of the first export programs that we have. Now our assessment is that by mid of next year, we will be completely out of capacity. And for us to develop the line and the model on that line for the businesses that we have in the pipeline in terms of discussion, we would need the second line. We have planned a small capacity enhancement on the existing line to meet the current capacity itself.

And once the second line is there, we are in a -- our safe assumption on the volumes is that we will be able to utilize that line also by end of 2026 completely.

Viraj: Now can I come back in queue. Thank you.

Moderator: Thank you. The next question is from the line of Mumuksh Mandlesha from Anand Rathi Institutional Equities. Please go ahead.

Mumuksh Mandlesha: Thank you so much. Happy festive season to the management and congratulations and all the best to Atul, sir, for the new role. And good to see the continuing solid revenues and margins for the sunroof business, sir. Sir, on the -- firstly, on the last previous question on the sunroof side, sir. So you expect, sir, next year by itself the second phase also to get fully utilized led by this upcoming Kia model. That's right, sir?

Rishi Luharuka: 2026, Mumuksh -- good to hear your voice.

Mumuksh Mandlesha: Yes, 2026, calendar year 2026, you're saying.

Atul Jaggi: The installation will happen in '25 and the utilization will start in '25, but full utilization will be by 2026.

Mumuksh Mandlesha: Okay. This is calendar year?

Atul Jaggi: Yes.

Mumuksh Mandlesha: Got it, sir. And sir, also just on the -- any new further additions in terms of order wins, sir? In the sunroof side, we were in advanced talk with the Citroen, Skoda, Volkswagen and even the Hyundai model, new model. Just any update on the confirmation on this, sir?

Rishi Luharuka: Yes. So as I mentioned to Viraj as well, Mumuksh, we have got one order, which is the first export order out of this entity. It's a small volume program, but there is also an EV platform that is supposed to be built in, which we are hoping to get. And probably in the next quarter, we'll be able to share that as well. So now -- but that customer also is -- this is all Hyundai and Kia only.

Mumuksh Mandlesha: Okay. And also, sir, even the Creta EV also would get added, right, sir?

Rishi Luharuka: That's right.

Mumuksh Mandlesha: Sir, secondly, on the -- any update on the new expansions in terms of M&A and the partnership model? How are you seeing the opportunity there, sir? And in the recent interviews, even Mahindra sir had talked about new opportunities in these areas. So how do you see that flowing to people, sir?

Rishi Luharuka: Mumuksh, our approach towards the partnership piece remains where it is. We are looking at inorganic pursuits in order to achieve our vision. And as we had updated the previous quarter, we are in active conversations on those as well. We will be able to update when those fructify.

Mumuksh Mandlesha: Got it, sir. Sir, coming to on the central side, sir, in terms of financial numbers, this quarter in standalone numbers, Q-on-Q employee costs saw about 13% jump, which led to a margin decline on the standalone numbers. So any one-offs there, sir or how do you see the run rate for the employee cost line?

Rishi Luharuka: For the sunroof business, Mumuksh?

Mumuksh Mandlesha: This was standalone, sir.

Rishi Luharuka: Standalone. Okay. Yes. So there was -- there's not a one-off. There has been some revisions in the wages of the operating engineers, which we have. Also because of the cyclicity of the -- and the seasonality of the business, we've added some workforce, which has resulted into a mismatch between the revenue and the cost. So that's what probably is the reason why you're seeing the manpower cost a little higher than the previous quarter.

Mumuksh Mandlesha: Got it, sir. Sir, in last quarter, you mentioned about the 2-wheeler side, we lost some market share due to Bajaj exports not picking up. But now how you see going ahead, how their volumes are shaping up? Do you see the traction for the export volumes, sir?

Atul Jaggi: So specifically to Bajaj, yes, we are seeing better export volumes coming back to us in this particular -- starting October, which is the third quarter. So we'll have to see how they continue, but at least the projections are much better than the second quarter, what we saw in the second quarter.

Mumuksh Mandlesha: And sir, generally, we see that last -- first half has been broadly in line with the underlying industry in terms of growth for the standalone business. So I just want to understand more how do you see the content per vehicle increase happening? How is the areas like Inverted Front Fork, FSD doing well, sir?

Atul Jaggi: So yes, definitely, I think the more we will continue to get into the products like the inverted front forks or the mono shocks or the gas canisters or the FSDs, the content per vehicle would continue to improve there. So there are certain programs in the pipeline where I think we are moving away from the conventional front forks to the inverted front forks. So definitely, the content per vehicle is expected to be better.

But yes, as you know, this is a growing market. There -- while multiple developments are going on, multiple discussions are going on with the customers. But obviously, you will -- over a period of time, we will see a good substantial number on the roads, the vehicles with these kind of sort of front forks and these kind of products.

Mumuksh Mandlesha: Got it. Was there any element of deflation in this quarter due to steel prices coming down, sir? Any pass-through of that happening, sir?

Rishi Luharuka: Mumuksh, the impact of -- on the RMC on the commodities, what you're asking?

Mumuksh Mandlesha: Yes. So basically, I mean, if steel prices have come down, so is there any pass-through of that happening to the OEM side?

Rishi Luharuka: Yes. So it's a back-to-back arrangement that we have, 95% to 98% is the pass-through that we have. And to that extent, roughly around 0.1% to 0.2% is the impact of the commodities going down.

Mumuksh Mandlesha: Got it, sir. Sir, just lastly, this quarter, we saw a very good pickup in export side for the suspension business. What has led to that pickup? And just on -- lastly, on the tax rate for the console on the sunroof business sir, expected rate?

Atul Jaggi: On the exports with both the Latin America business that we have with GDC and DAF in Europe, we saw a much better number as compared to the first quarter. So that is the reason for a healthy second quarter in terms of the exports.

Rishi Luharuka: Mumuksh you asked me for...

Mumuksh Mandlesha: Yes. Tax rate, sir.

Rishi Luharuka: Tax rate. So 25% for Gabriel and 15% for Inalfa.

Mumuksh Mandlesha: Got it sir. Thank you so much for this opportunity.

Moderator: The next question is from the line of Amit Hiranandani from SMIFS Limited. Please go ahead.

Amit Hiranandani: First of all, congratulations to the MD, sir, for the new role at Gabriel India. Best wishes. Sir, as the new Managing Director, can you throw some numbers on the next 5 years, specifically where do you aim to take the consolidated top line margins and prospects for the new client additions and specifically on the road map for the new product introduction, please?

Atul Jaggi: Amit in terms of the -- anyway, thanks for the good wishes. So in terms of the numbers, at this stage, I will not be in a position to share any sort of forward-looking number. But as I mentioned, I think the key focus areas where definitely I would like to focus more and to see how we can sort of speed up and do better is definitely on the overall growth, where special focus would be there on exports, both on the OE as well as the aftermarket side.

And also our continuous focus on sort of improving the profitability bottom line. And again, technology is going to be an important enabler. So I think these are the focus areas, as I mentioned earlier. But one, it is sort of too early to get into the numbers as just -- I think the third day today in office there. But Again, I can only assure you of focus on these particular areas at this moment of time.

Amit Hiranandani: Sure. Sir, are we on track to achieve a double-digit EBITDA margin for the standalone business by FY '26?

Rishi Luharuka: Well, subject to obviously commodity or other aspects, the endeavor continues.

Amit Hiranandani: Okay. Sir, any updates on why to understand the FSD technology wins because we are supplying to XUV700, but any other new wins here?

Atul Jaggi: No firm sort of LOIs as of now, Amit, but there are a couple of discussions going on, on the POCs, the proof of concepts with customers. So hopefully, I think in the coming few months, I see a possibility of converting that into an LOI. But in hand, as of now, nothing beyond that.

Amit Hiranandani: Sure. On the sunroof side, sir, presently, can you just clarify which all models we are currently supplying the sunroof and what all new models are in the pipeline?

Rishi Luharuka: Creta and Alcazar is what we supply currently, Amit. And there is an unnamed model called AY from Kia that the SOP is going to happen soon.

Amit Hiranandani: Okay. And sir, regarding the royalty side, so Gabriel pays about 5% to Inalfa and 2% of the sunroofs revenue as a management fees to ANAND Group. I mean, is this understanding correct?

Rishi Luharuka: So 5% is paid by Inalfa Gabriel to both Inalfa and Gabriel standalone.

Amit Hiranandani: Okay. So it's in total 5% you pay?

Rishi Luharuka: That is right.

Amit Hiranandani: Okay. Understood. Okay. Sir, on the unit -- sunroof unit side, so how many units were produced in H1?

Rishi Luharuka: We do not share volumes and realizations for sunroof, unfortunately, Amit.

Amit Hiranandani: No problem. Sir, lastly, are we receiving any income tax benefits on the sunroof business given the very low effective tax rate in Q1 and Q2?

Rishi Luharuka: It is a 15% entity and that is how it will remain.

Amit Hiranandani: So this will continue for the coming years as well?

Rishi Luharuka: Yes.

Amit Hiranandani: Great. All the best sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets Limited. Please go ahead. Sorry to interrupt the current participant has been disconnected. We will move on to the next participant. It's from the line of Abhishek Jain from Alfaccurate Advisors. Please go ahead.

Abhishek Jain: Thanks for opportunity. Sir, my first question on the sunroof side. So basically, we have seen a very impressive performance on the margin side in last two quarters. So what is the reason of such a strong margin performance despite that royalty of around 5%? And this margin will be sustainable in the coming quarters?

Rishi Luharuka: Abhishek we are not able to hear you. Your voice is too muffled. You will have to be a little away from the speaker and again ask the question, please.

Abhishek Jain: Are you able to hear me now?

Rishi Luharuka: A little better, yes.

Moderator: Mr. Abhishek sir, could you please use your handset.

Abhishek Jain: Okay. Hello.

Management: Yes Abhishek. We can hear you.

Abhishek Jain: Sir, my question on the sunroof margin. We have seen very impressive performance in the last two quarters and margin has gone up to around 18% now. So is this margin sustainable on the sunroof side?

Rishi Luharuka: Abhishek, it's an evolving business. It's too early for us to comment on sustainability of this margin. Having said that, because of the competition also coming in and also the composition of sunroof between Panoramic and TVS, these margins will sort of see some changes for sure. So that's what I had mentioned to Viraj as well. We should not look at -- look too much into this quarter in terms of margins. Our endeavor would remain to be in the range of 12% to 14%.

Abhishek Jain: 12% to 14%. And how much the import content in subsidiaries business, sir?

Rishi Luharuka: In the sunroof, you're saying?

Abhishek Jain: Yes, sir.

Rishi Luharuka: So currently, we have 60% broadly the import content.

Abhishek Jain: So is this margin performance in the last 2 quarters is the -- in the region of the -- any fall in the raw material prices or something?

Rishi Luharuka: No, sunroof, there is no commodity impact.

Abhishek Jain: Okay. And sir, how much is the current run rate of the production of the sunroof?

Rishi Luharuka: We are currently doing close to 10,000 to 12,000 of sunroofs per month.

Abhishek Jain: And what is your target for FY '26 to...

Rishi Luharuka: Target for?

Abhishek Jain: FY '26, sir, on a monthly basis?

Rishi Luharuka: The volume, no, we don't give forward-looking guidances for volumes. We've shared in the past that we are looking at INR400-odd crores this year. And our target would be to achieve INR800 crores to INR1,000 crores in the next 5 years.

Abhishek Jain: Next 5 years? Hello?

Rishi Luharuka: Yes, next 5 years.

Abhishek Jain: Okay. And sir, in this first half, how much the revenue secured from the EV business?

Rishi Luharuka: So broadly, we -- our EV business is 2% to 3% of our total top line.

Abhishek Jain: 2% to 3%. And my last question on that, what is the reason of the underperformance in the 4-wheeler segment despite that new volume started from the New Swift?

Atul Jaggi: So on the 4-wheeler side, I think there are a couple of factors. One, the overall industry, I think in the last quarter has not done so well. And now within that, it is a model mix issue. So a couple of our models have done relatively lesser number than the models where we were not -- we are not present. So it is a mix issue. I think that has impacted the UV side actually.

Abhishek Jain: But you are targeting the higher revenue from the New Swift business around incremental revenue of the INR100 crores in this year. What happened there?

Atul Jaggi: You're talking of the Swift?

Abhishek Jain: Yes, sir.

Rishi Luharuka: So Swift, I think as would have been -- would have shared earlier, I think Swift is a platform where we are working on. But I think we are little away right now from the SOP. So it has not got into the production. We are right now in the development stage of that model.

Abhishek Jain: Okay sir. Thanks. That's all from my side.

Moderator: Thank you. The next question is from the line of Jyoti Singh from Arihant Capital Markets. Please go ahead.

Jyoti Singh: Thank you for the opportunity. My line got dropped. Sir, just wanted to understand on the FCD side, like if you can update on the Maruti and Tata Motors regarding that adoption.

Rishi Luharuka: You -- Jyoti you mentioned FCD or...

Jyoti Singh: Yes, sir. FSD, sorry.

Atul Jaggi: FSD. Okay. So I think I mentioned this earlier on the FSD in terms of the vehicle on road and in production, the XUV7 for Mahindra is going on. There are a couple of other customers platforms where we are working on the proof of concept right now. I would not be able to sort of name the platforms because the discussions are going on. We don't have a firm LOI on this, but we are looking forward to converting maybe one of them or both of them into a firm LOI. So once that happens, we will be able to share more information on that.

Jyoti Singh: Okay. And sir, with the LOI from the Siemens for e-Loco, what are Gabriel next step in the expanding beyond Indian Railway? And do you foresee significant growth in this segment in the near term?

Rishi Luharuka: Jyoti, good question. So yes, there are opportunities outside the country in terms of railways. We are trying to map that at this point in time. We don't have a number which we have casted out in terms of growth potential outside the country. But once we have a development, we would share it.

Jyoti Singh: Okay. And sir, like earlier participant also asked on the sunroof side. But my question on the localization process for the sunroof business for the Kia program? And what will its impact on margin be like going forward?

Rishi Luharuka: See, I think localization should be looked at from a supply chain disruption point of view rather than looking at improvement in margins because at the end of the day, these do get transferred to the customer in terms of price reduction. Currently, we are working at a 60% localization. There are critical components which are being imported, which we'll have to be very sensitive about in terms of localizing it.

Having said that, we have a plan. So the idea broadly would be to sort of bring it down to 40%-odd is what Mr. Kolhatkar had also shared. We are working on that plan for the subsequent platforms. But given the entity has just begun and there is only two programs, we want to also understand the product and the nuances of it before we start doing other localization.

Jyoti Singh: Okay, sir. And sir, can you share a timeline for the plant 400 million for the Phase 2 expansion like what kind of capacity increases are you expecting?

Rishi Luharuka: Okay. So we already have one line ballpark 150,000 to 180,000 sunroofs. We are planning for another line which is going to have a similar capacity. And thereafter, it will depend upon the model, whether it is a panoramic or a TVS as to what we will look for further expansion.

Jyoti Singh: Okay. Sir, just last two questions. One on the CV side, like when we're expecting better growth in that segment? And on the demand scenario side, how we are seeing further for the rural and urban both, if you can give some highlights?

Atul Jaggi: Yes. So on the CV side, as far as the domestic market is concerned, I think you are aware that we have practically more than 80% to 90% market share. So obviously, with that kind of a market share, we continue to perform exactly in sync with the market. And the first half in the commercial vehicle side was not so great, okay, while we are expecting a better H2.

So I think the focus for us on the CV side is primarily looking at exports market. And this is where we are concentrating and we would like to sort of expand the portfolio beyond what we are doing -- what we started doing a couple of years back with DAF.

So I think this is the focus area as far as the CV is concerned. So because in terms of share of business, there's now very little that we can do beyond what we already have. And within that also wherever the opportunities are there to get into some products or the sub products where we are not there, we are already working with customers. So in terms of new programs, the Mahindra UPP is one platform that is there and then a couple of Tata Motors platforms where we are working on.

Jyoti Singh: Okay. Thank you so much sir.

Moderator: Thank you. The next question is from the line of Aditya from Skill Ventures. Please go ahead.

Aditya: Hi, sir. Thanks for the opportunity. Sir I have been tracking your company since 2017. And if I look at your past commentary we have always mentioned that we aspire to do double-digit margins in our standalone business. So there have been periods where the commodity cycle was not in our favor, while there have been period when it has been in favor as witnessed in the last year. We had also implemented our Core 90 initiative where we have undertaken a lot of cost initiatives.

But sir, in spite of various initiatives and the market cycle also in our favor, we have been unable to achieve those double-digit margins. So if you could just help us understand, does the standalone business have the capability to do double-digit margins? And if yes, so what would lead to the same? And in what time frame do we aspire to achieve the same?

Rishi Luharuka: Aditya, I understand your perspective, and that's a similar perspective, which was shared when we had also talked about our margin expansion initiatives. We clearly demonstrated that from a 7.1%, we moved down to now the 8.5% to 9% trajectory. So there is an improvement there for sure. Now if you look at this journey is going to be incremental and this journey is going to obviously expect certain amount of non-issues like commodity for sure.

Having said that, the endeavor of moving to double digit continues for us. The Core 90 program is not an event, but a journey, and we are aggressively pursuing it. Now with Atul coming on board, we will also be reenergizing it with more valor and rigor. We continue to be committed to moving to the double-digit margin for the standalone business by 2026.

Aditya: Understood. So this is not an aspiration, but we have a clear road map to achieve the double-digit margins?

Rishi Luharuka: Yes, we've spoken at length on what the Core 90 program is. It includes every single facet of the income statement as well as the balance sheet. And there is a team -- there are a set of teams which drive these cost as well as income aspects. And there is a clear-cut road map, action plan and a review mechanism which is already in place, which is driven at the top most level by the MD and myself.

Atul Jaggi: So just to add to it, I think I see two positives in the recent few quarters as compared to the previous time line that you mentioned. I think one is I think we have been able to be more stable in terms of our performance, I would say that. And secondly, there is a clear shift like Rishi mentioned from 7%, 7.1%, 7.2% range to now between 8.5% to 9%. So definitely, I think this means that whatever we have been doing, whatever this initiative we had looked at I think it is helping us to move in the right direction.

Time to time, we keep tweaking it to bring new energy to it, to bring new aspects to it because as you look at things differently, you come across various opportunities. And this supported with more focus on exports, is supported with more focus on the product mix, I'm sure would help us to achieve that number, but we are completely committed towards that number. And I'm very hopeful that we will be able to deliver it within the time frame that Rishi mentioned.

Rishi Luharuka: Aditya, just to add to what Mr. Atul mentioned, the sustenance of improvement in the margin is also very critical. So it's always good to put in some actions, be it sustained, then move into another set of actions and that's how you are seeing the margins pan out.

Aditya: Understood sir. Thanks for the detailed replay and sir we were looking to introduce one more new product by the end of this year. So what is the status of the same?

Rishi Luharuka: We are in advanced discussions on that. Unfortunately, we won't be able to share much details, but we are hopeful of closing the same.

Aditya: Understood. And sir, the royalty income, which the standalone business receives from a subsidiary. So is it accounted in our revenue or is it part of our other income?

Rishi Luharuka: Other income.

Aditya: Okay sir. Thank you sir for answering my questions.

Moderator: The next question is from the line of Viraj from SIMPL. Please go ahead.

Viraj: Yes. So just two questions. Hello.

Rishi Luharuka: Viraj again your voice is muffled, little away from the speaker please.

Viraj: Yes. So just two questions. One is on the standalone business, we are a supplier to Thar. So even for the Roxx, have you won the business for that?

Rishi Luharuka: No. We are not there on the Roxx platform, Viraj.

Viraj: Okay. And second is on the sunroof business, you talked about us looking to cater to an export opportunity. So the arrangement with Inalfa, does that kind of give us a play to eventually also tap into some of their home markets or other markets? Or how is the arrangement when it comes to outside India market play?

Rishi Luharuka: Great question there, Viraj. So see, at the end of the day, as I have been mentioning always that it's a partnership. And the idea here is to serve the customer. If the customer is expecting a supply in a geography where Inalfa does not have a manufacturing presence or the customer from the sourcing office is in a different country, these options are available for us to jointly discuss and agree. And that's what has happened in this particular case. It's a small volume, but needless to say, it's a good start.

Viraj: But if you look at globally for Inalfa also, we have a very healthy presence in China and other European setup. So in terms of opportunity or addressable set for us, when it comes to export sunroof, is that something one can see not immediately, but if I have to look at say, next 4, 5 years down the line, is that something can be material for the entity?

Rishi Luharuka: No, it will be largely India bound business.

Viraj: Okay, understand. Sure. Thank you very much. Good luck.

Management: Thanks Viraj.

Moderator: Thank you. The next question is from the line of Punit Zaveri an Individual Investor. Please go ahead.

Punit Zaveri: Thanks for the opportunity. Just one question on the sunroof side. So your Phase 1 line has about 1.5 lakh capacity. I just wanted to understand for the industry because we are an underpenetrated market in terms of domestic volume and domestic production. Could you just talk to us about what is the current capacity for the industry? How many are currently imported within India?

So just to get a sense of how much is this current capacity of 1.5 lakh in terms of the industry? And once you are looking to add another 1.5 lakh, how would that be in terms of the total either import or the total production within the country or the use of sunroof within the country? Just wanted to understand on that, sir?

Rishi Luharuka: So it's a little difficult mathematics given that what is produced by the competition on which line is a little difficult information. But ballpark, we look -- if we take a 4.2 million kind of a production base, sunroof would be anywhere between 900,000 to 1.2 million. And currently, our fair estimate with Webasto ourselves and Mahindra Goldie close to 50% is imported and 50% would be domestic.

Going forward, depending upon the volume and the mix, I would safely assume with new competition coming in, it would become 80% local supplies and 20% import.

Punit Zaveri: And -- but do you see that over the next -- because we have seen SUV-fication of the industry over the last 2 years. And based on the plans that companies like Mahindra and Tata have put out, the SUV content and SUV launches will be much more in the next 5 to 6 years and that they've given plans till 2030. So do you see this number of about 900,000 to 1.2 million going up dramatically over the next 5 to 6 years?

And if any kind of range you could provide? Do you see that roughly about 40% to 45% of the vehicles will have sunroofs over the next 5 to 6 years, which presents a very good opportunity for someone like Gabriel?

Rishi Luharuka: I'll try and give you a perspective here. If we assume 6 million, 6.5 million by 2030, 50% of that coming through SUV. My rough estimate of penetration would be in the range of 50% to 60%. And in case of others hatchback and UVs and other things, you can roughly take 25%.

Punit Zaveri: Yes. Understood. Thanks so much for the opportunity and wish you the best.

Moderator: Thank you. The next question is from the line of Jayesh Gandhi from Harshad Gandhi Securities. Please go ahead.

Jayesh Gandhi: Sir, just a clarification. Our sunroof business is accounted as subsidiary and 5% of the royalty is shared between Inalfa and Gabriel. And out of that, Gabriel accounts that part as other income. Is that understanding correct?

Rishi Luharuka: That's true, Jayesh.

Jayesh Gandhi: Okay and that’s all from my side. Good luck for future.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Atul Jaggi for the closing comments.

Atul Jaggi: So thanks a lot. So I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or Strategic Growth Advisors, our Investor Relationship Advisors. Thank you so much.

Rishi Luharuka: Thank you very much.

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