

ANANDRATHI

" Gabriel India Q4 FY10 Earnings Conference Call"

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**MODERATORS: MR. PRAKASH KULKARNI
MR. ARVIND WALIA
MR. KISHORE RAO
MR. GIRISH SOLANKI**

Farah: Ladies and gentlemen, good morning and welcome to the Q4 FY 2010 conference call of Gabriel India hosted by Anand Rathi Financial Services. As a reminder, for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need any assistance during this conference call, please signal an operator by pressing "*" and "0" on your touchtone telephones. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Girish Solanki of Anand Rathi Financial Services. Thank you and over to you Sir.

Girish Solanki: Good morning everyone and sorry for the delay. Welcome to the Q4 conference call of Gabriel India. We have with us Mr. Prakash Kulkarni, who is the executive chairman of the company and he is joined by Mr. Arvind Walia the MD, and Kishore Rao who is the CFO. We start with Mr. Prakash Kulkarni giving us a brief overview of the company and some of the basic numbers and then let us start with the Q&A session. Over to you Sir.

Prakash Kulkarni: First of all welcome to all of you. It is indeed my pleasure to participate in this conference. Thank you for joining us today despite your busy schedule being Monday, your first day of trading for the week. Thank you very much. I have with me as Girish has said my managing director Mr. Arvind Walia and also my CFO Kishore Rao. Depending upon the questions asked I would request them to also participate and answer your question. Let me just give you a brief. Gabriel India Limited is the publicly traded stock quoted company, which is a flagship company in Anand Group. Anand Group that is through Asia Investment and the family about 49.63% of the shareholding balance is definitely in the hands of the public. Gabriel India has seven plants at six locations and will shortly have the eighth plant, which is at Sanand for Tata Motors Nano car. Seven plants are located at various locations; the one from where we are calling is Chakan near Pune. We have another plant near Delhi, which is in Gurgaon; the name of the place is called Handsa that is dedicated to Maruti Suzuki. We have a plant in Parwanoo near Chandigarh, we have a plant in Nashik, in a place called Amber, we have a plant in Dewas, we have a plant in Hosur. Basically these plants are so located that they are near to the customer and we can supply our shock absorbers, front struts and goods whatever is required in just-in-time basis. The company has technical

tie ups with Japanese company called KYB, also with Yama (ph) and another one is ArvinMeritor which is a very old association for the last about 40 years. Gabriel operates in all the three sectors; I would call it, which are two-wheelers, three-wheelers, passenger cars and commercial vehicle. It also has its after-markets and exports. Just to give you some overview of this year's total turnover if at all we round it off to about 700 Crores, about 45% is through two-wheeler and three-wheeler because as you all know, that in Indian automotive segment, two-wheelers and three-wheelers form a major chunk though it is also galloping and wanting to catch up with the two-wheeler and three-wheelers, 45% comes from two-wheelers and three-wheelers and about 29% comes from passenger cars, 14% comes for commercial vehicle and after market and export are roughly about 12%, that is how it sums to about 100%. If you see for the year, growth in two-wheeler and three-wheeler segment, year over year is roughly about 37%. In passenger cars it is about 32% and commercial vehicle because the denominator is low it is 44.5% and after market and export is about 20%, so this is what I give as year-on-year growth. On the whole I think you see that this growth is at least somewhat ahead of the industry growth as shown in those sectors. On the whole if you see that this growth is definitely at least somewhat ahead of the industry growth as shown in those sectors. The numbers, which we talk about for Q4, our total income was 192 Crores, which is 1.92 billion rupees as compared to 1.4 billion rupees last year this time, which is about 36.5% jump, while year-over-year if I talk in Crores then maybe 705 Crores as against 532 Crores last year, total overall growth of 32.5%. EBITDA margins are improved, which is roughly about 10% today as compared to 5% last year at this time. Profit margins have improved from last year, it was 1.4% this year PBT has become about 5%; PAT has improved from 1.1% and 3.4% as compared to the last year, so this is on the whole as a quarter-on-quarter and the year-over-year growth prediction. I think there would be a lot many things we would like to know, I think we would definitely try and make every effort to give you as much information as we have, should we not have I think we would definitely see whatever we could supply to you we will be mailing it to you. Thank you very much. With this I would welcome your questions. Thank you.

Farah:

Thank you. Ladies and gentlemen we will now begin with the question and answer session. The first question comes from the line of Nikunj Mehta from Corporate Database. Please go ahead.

Nikunj Mehta: Could you give us a brief overview of your market share in these different segments that you mentioned earlier and the CapEx plans that you have for the next two years and the debt as on FY 2010?

Prakash Kulkarni: Total debt is about 148.8 Crores. Our CapEx plan, we are still working on it but we will talk about it more when we meet in investor conference, but presumably over a period of next two to three years being there is a growth, which is very clearly seen. We would like to believe that we will have to invest in excess of about 150-200 Crores. This year we would be investing almost to the tune of over 25 Crores. Market share as I told you varies, let me put it in this way, market share in our two wheeler and three wheeler segments would be around 23% going forward while in CV segment, it will be in excess of 84%, while for passenger car, it varies but it is around 45%.

Nikunj Mehta: Okay do you have a count on replacement market?

Prakash Kulkarni: Yes, our total market as I said as compared to what we have is about 12%, 12% of the revenue generated by Gabriel comes out of after-market; after-market and export we are combining together because most of the export is also for two-wheeler.

Farah: The next question comes from the line of Amit Nigam from Angel Securities. Please go ahead.

Amit Nigam: Just one question on your plan for Nano, can you just elaborate on how the supply is ramping up on the Nano front and have you started expansion in terms of how Tata Motors is going to start more of production from Sanand from June onwards, so how is the expansion happening on that front?

Prakash Kulkarni: I would like Mr. Walia to fend this question.

Arvind Walia: See we have already started supplying to Nano, both front struts and the rear shocks. We have set up a plant in Sanand. We would be supplying in JIT basis. Currently we have a 50% market share for Nano and I am quite hopeful that with our plant over there and the service, which is found to be quite satisfactory, probably we have a possibility of increasing our shares with Nano.

Farah: The next question comes from the line of Amit Nigam from Fortis Investments. Please go ahead.

Amit Nigam: I had a question about the growth, which you said is pretty clear and visible, so if you could share with us whether you see this growth more on the domestic market or is it more of export led and if the growth is so clear and visible, then why is it that over two to three years you want to invest 150 to 200 Crores, but in the first year it is just 25 Crores?

Prakash Kulkarni: I think growth is very clearly visible that is number 1, number 2, we believe that we would be able to grow as what we have grown here about 20% to 25% year-over-year for the next two years provided of course the international economy does not tank any further, if that happens then we cannot really do much, but otherwise we believe that the way in which the auto sector is positioned today and the way they are jubilant 20% plus growth year-over-year (indiscernible) 12.23, number 2, your question was why are we investing small, we are not investing small, as a matter of fact it will be a continuous process, typically the growth, which we have seen this year has helped us in ensuring full utilization of plant at all the places and that is where going forward we feel that for meeting the requirement of fiscal year and maybe the first quarter of next whatever the investments needs to be done would be done right now.

Amit Nigam: Okay. In this year how much of the margin expansion was driven by raw material benefit.

Prakash Kulkarni: I think we will strive hard to really improve our EBITDA margin at least 1% year-over-year.

Farah: The next question comes from the line of George Varghese from Unicon Securities. Please go ahead.

George Varghese: My question was related to the commercial vehicle division as to what are the top three clients accounting for and who these top three clients were and the second question would be across the line segment in commercial vehicle, passenger cars, two-wheeler segment what are the new client additions we have managed in the current quarter.

- Arvind Walia:** In commercial vehicles, the top three are probably the only major three players in the country, which is Tata, Ashok Leyland, and Mahindra and we have a strong position supplying to them. Of course, we are supplying being the 85% suppliers of this particular segment needless to say that we are supplying to all the commercial vehicle manufacturers and we are very confident of the retaining our market share for future because all the new models which are on the drawing book, which are in the engineering section going to be rolled out in the next 24 months, we have for most of the them, we have got contract and we are developing products for them, so we are confident in the future also our market share would be retained.
- George Varghese:** Have you added any new clients this quarter in passenger car or two-wheeler segment?
- Prakash Kulkarni:** We have started supplying for Volvo. For Daimler we have started supplying, for Nissan we have got LOI, so all the players who are coming under this segment we have a very respectable and a satisfactory market share.
- Farah:** Thank you. The next question comes from the line of Amit Kasat from Anand Rathi Financial Services. Please go ahead.
- Amit Kasat:** I just wanted to understand your capacity utilization at this point of time and the second question is about the two-wheeler market, because I believe that you are not a supplier to Hero Honda to that great an extent, who is the market leader, so how is your market share spanning in the two-wheeler company at this point of time.
- Arvind Walia:** Yes, this observation is correct, in fact that is true that we are supplying to all the automotive OEMs in the country except for Hero Honda and that also you know the reason, I think we have a strong presence, in fact Mr. Kulkarni mentioned around 20% to 22% market share that is because we have the privilege of supplying to all the other two wheelers in the country, be it Bajaj, Yamaha, Suzuki, because we are not in Hero Honda that for Honda motorcycles we are supplying, in fact we have been able to build up a very respectable market share of 20% to 23%, but if you take the Hero Honda out of the reckoning then we are the major supplier in the two wheeler market as well.

- Amit Kasat:** Is there any breakthrough which is going to happen in the Hero Honda OEM perspective or on the replacement side on the spare part perspective.
- Prakash Kulkarni:** We do participate in the replacement side and we have respectable business in that segment I do not personally foresee any major breakthrough in the OEM supplies to Hero Honda though I may answer by saying I see a major possibilities, which we are watching on becoming major suppliers Honda motorcycles.
- Amit Kasat:** Can you touch base upon your CapEx utilization so far?
- Arvind Walia:** The fact that Mr. Kulkarni mentioned about a plan of around 200 Crores of capital expansion in the next two years currently we are virtually working through full level. We have immediate proposal of around 25 to 30 Crores as we mentioned to make sure that we are in a position to supply for this year projections. For next year, we have already started working in the major investment, planning would be done this year for execution next year to be able to cope up with this, so right now capacity utilization I would say the critical operation capacities available to us are fully utilized maybe around 90% or so.
- Farah:** The next question comes from the line of Jignesh Kamani from MF Global. Please go ahead.
- Jignesh Kamani:** When I observe the shareholding pattern I see that we have increased our stake to almost 5% in the last three to four months, so what is the management guidance where are we comfortable having our stake.
- Prakash Kulkarni:** I think, as you know that ArvinMeritor was one of the major shareholders in Gabriel India Limited, which held about 15%. ArvinMeritor by themselves had exited from the chassis business as they call it wherein the shock absorber forms part of chassis business. They also want to divest their interest in Gabriel India Limited. As of March 31, they have sold about 5% and as per the shareholders agreement, these were picked up because they were to be sold to the other partner and Asia Investments in respect of 4.93 as last. You know to complete this also they have picked up another 4.9% as of April and both these particular information we have given it to SEBI.
- Jignesh Kamani:** Okay, so there would not be any other creeping increase from the market; is this the only transfer from your side?

- Prakash Kulkarni:** Yes.
- Farah:** The next question comes from the line of Mayur Parkeria from Wealth Manages. Please go ahead.
- Mayur Parkeria:** Just wanted to have a conceptual understanding, is the production line for passenger car and CV, at our end can they be interchangeably used?
- Arvind Walia:** Not particularly, they are separate, in fact the requirements and the technology differ greatly, so we have separate factories supplying these products. For commercial vehicles, they are supplied from our Dewas plant, for two-wheelers primarily from Nasik and from Hosur, whereas our car plant that is four-wheelers are from Chakan and from Handsa that is Gurgaon, so separate lines separate plants predominantly supplying to these each segment.
- Mayur Parkeria:** And the Capex over the two years, which we have broadly of 150 Crores to 200 Crores would be for which segment?
- Arvind Walia:** The entire industry is spending and when we say around 15% to 20% is the expected growth all the segments are expanding so we will need to expand the capacities all across, so it will be divided.
- Mayur Parkeria:** In our revenues what will be the percentage proportion between two-wheeler, passenger car and CV?
- Arvind Walia:** As of year-end about 45% of the revenue is generated out of two-wheeler and three-wheelers, about 29% is generated out of four wheelers, 14% is generated out of commercial vehicle and 12% is from after market and exports.
- Mayur Parkeria:** After the Capex, do you see any structural change in these proportions?
- Arvind Walia:** What happens is that typically the denominator for two wheeler and three wheeler being high the percentage growth would be looking as less, while passenger car's growth will be more, so I think we will have to watch and see depending upon the expansion taking place because our business depends totally on what the OEM does and depending upon OEM we have to really get geared up.
- Mayur Parkeria:** Do you also supply to Bajaj?

- Arvind Walia:** We supply to Bajaj, we supply to (indiscernible) 23.04, and they are our customers.
- Farah:** The next question comes from the line of Ajay Sethia from Centrum Broking. Please go ahead.
- Ajay Sethia:** You did mention about the segmental revenue break up, if you can just give us the volume break-up across the segments like two wheelers, four-wheelers and CV?
- Arvind Walia:** It is very difficult because if you take 700 as a total number and divide I think you will get those.
- Ajay Sethia:** You did mention about the revenue break up I was looking at the volume break up if it is possible?
- Arvind Walia:** Do you mean the number of shock absorbers?
- Ajay Sethia:** Yes, in unit terms. If I can go for the second question apart from Gabriel who is the major player in commercial vehicles, definitely you are the major one but who will be the next player who has got around 16 off percent market share?
- Arvind Walia:** Right now our competition comes from Escorts and Teneco.
- Farah:** Mr. Solanki would you like to ask any question while we wait for participants to join the queue.
- Girish Solanki:** There were some talk in the market regarding buyback, are we contemplating any buyback of equity shares from the market?
- Prakash Kulkarni:** Buyback from the company, that is Gabriel India Limited, the answer is no.
- Girish Solanki:** There was another question that I had in mind; it was more to do with capacity utilization that we spoke about in our conference call. I would like to know the installed capacity as on what we have, it is more on the pieces basis, in terms of calculation purpose is there any increment in this year that we have done to ensure capacity?
- Prakash Kulkarni:** I think what we have talked about just now there will be certain bottleneck operations and when we debottle them the capacity will get reduced and that is where we are talking about 25 Crore rupees of investment this year and thereafter

for real growth kind of a thing we will definitely put our investment on the ground by next year.

Girish Solanki: In terms of number of shock absorbers that we sell are we saying that 25% is the incremental shock absorbers that will be sold in FY 2011?

Prakash Kulkarni: It depends upon also on the product mix, when I talked about 20% we are talking about revenue generation, typically revenue generation may come from the unit also as well as the product mix depends upon the what the product mix are, to answer your earlier question if you talk about the shock absorbers and the struts we produce about 12.8 million shocks and struts. The front forks which are required we are producing about 1.8 million. If you want the exact number it is 12.782 million and 1.788 million.

Girish Solanki: Do we have any order book or something because I believe we might be having say in three months or two months of order book or we do have some orders in hand from some of the major OEMs.

Prakash Kulkarni: In this business the order book is decided about a year or two years ahead because we have to work along with OEM and when they issue a letter of intent the development of the component starts, so possibly what you said was that we have orders for this fiscal year as well as next year which was collected in fiscal year 2009-2010.

Girish Solanki: So we are well booked for two years?

Prakash Kulkarni: With that we have confidence that we would be able to sail through with minimum growth of 20%.

Girish Solanki: What is the strategy for the international market because as you mentioned 12% of your top lines were from the after market as well as exports, so which are the other larger players in the international markets and what is our strategies towards developing and getting in to the international markets?

Arvind Walia: First of all in exports we have two kind of exports, one is we are self-supplying to after market and the export markets that is replacement markets and also we are supplying to some OEM, we are supplying with the help of our partners, which is Yama (ph) Suspension Systems in Japan. We have some orders, which they have

developed, they are supplying directly for after inroads (ph) and there is ArvinMeritor our other joint venture partner who is a major shareholder as Mr. Kulkarni mentioned. For them also we are supplying for customers like Sears and Henrikson in USA, but we will see dumpers, but then we are supplying virtually to all the markets where the Indian cars are and we are exporting for replacement requirement and now we have some interesting proposals from countries like Australia and some European countries as well. Also we are supplying directly to Renault Iran. They are also making the same model as in India Logan for which we have got the order and we are supplying.

Farah: Thank you. The next question comes from the line of Shiv Chanani from Reliance Mutual Fund. Please go ahead.

Shiv Chanani: Just wanted to understand the competitive landscape both in the two-wheeler segment as well as in the commercial vehicle segment. The marginal players who are not as large as the largest and the second largest how are they approaching the market and how do you see this whole landscape taking shape in three years time.

Prakash Kulkarni: I think competitive landscape as it exists today let me just start with the two wheeler, there are definitely three major players one is of course which have just said is Munjal Showa, most of their major share would be with Hero Honda and there is another which is Gabriel Itself and the third one is Endurance which has major supplies to Bajaj Auto, so these are basically the three players who dominate this market as far as two-wheeler is concerned. Then if you talk about, in the passenger cars, there are components like Pinnacle, somewhere on the anvil, Magnetic Morelli and Gabriel, and Munjal Showa, Showa by itself supplies to Honda and other car makers, so that is the fourth player. Commercial vehicle as Mr. Arvind Walia just mentioned basically it is between Gabriel, Escorts and Teneco.

Shiv Chanani: Sir, from an OEM point of view how do you see each of these guys let us say particularly something like an HMSI or Yamaha, how are they shaping for the future do you think that they can become a significant force in coming years or do you think they will remain marginal players?

Prakash Kulkarni: We wish they do because that is where our bread and butter is. We wish them all the best.

- Shiv Chanani:** Do you see that thing coming in their overall strategy in terms of the way they are approaching market, has anything changed over a period?
- Prakash Kulkarni:** I think definitely there are inroads in Yama (ph) and HMSI and TVS. Suzuki has started showing their dominance, so good things are happening, I think shares would definitely get split between many two-wheeler manufacturers.
- Shiv Chanani:** Are you supplying to the new CV guys like Mahindra, Force Motors or any one of these guys?
- Prakash Kulkarni:** Yes, Mahindra & Mahindra and Force Motors, both of our customers.
- Shiv Chanani:** How are there ramp up plans? Do you think again they can make a difference?
- Prakash Kulkarni:** I think ramp up for Force Motors we do not envisage much, but as would we anticipate a good ramp up. That is again our opinion. We have to watch how they really do it.
- Farah:** The next question is the followup from the line of Nikunj Mehta from Corporate Database. Please go ahead.
- Nikunj Mehta:** You mentioned that you are investing about 15200 Crores over the next two years or three years. Can you give us an idea of the capital output that you are expecting out of these investments? In the sense of the potential turnover it can give you this kind of CapEx?
- Prakash Kulkarni:** At which time that we are aiming a good growth and we would definitely like to see that how do we get almost double the top line with this kind of investment.
- Farah:** Thank you. The next question is a followup from the line of Mayur Parkeria from Wealth Manager. Please go ahead.
- Mayur Parkeria:** In most of the auto components there have been a significant outsourcing opportunity, so where does the shock absorbers fall in that gap and why that opportunity is not getting harnessed and because of this can you throw some light on the technological gap on how are we gearing up for that and do you see that coming in the next one or two years or in the near term?

Prakash Kulkarni: In auto parlance what you are saying is how are we having our tier II supplies. Do we have the tier II supplies, because in auto parlance we are tier I supplier because it directly deals with OEMS while there would be many suppliers who supply through us to make our products. Yes, there are many small vendors which is an enterprise which supplies to us and we are working very, very proactively to ensure that a) their capacities are enough; b) their quality is upgraded, so that we will be able to meet their requirement of OEM. So that is what we call as a breakeven acronym called as the VSME that program is going on wherein in vendor upgradation would take place in terms of quality, layout and kind of a summing up a few principles of well known production system would be also incorporated there, so that we have stimulus quality maintained between tier II to tier I and tier I to OEMS.

Mayur Parkeria: I was trying to ask in the reference of export outsourcing opportunity?

Prakash Kulkarni: If I understand your question you are saying that the outsourcing?

Mayur Parkeria: We do outsourcing for the export of opportunity where we try to supply to the tier I players outside or directly to the OEM either way?

Prakash Kulkarni: Yes, you see we are also trying as I mentioned earlier we are already supplying to Renault in Iran and similarly we are working with a partner, which is KYB, which is a global company so we do complete with each other for the work in tandem and misuse of the possibilities in the overseas market, so synergies of their technology and our technologies and our ability to make world class products that is why we are working together with KYB and surely that is on our companies record to be able to supply to OEMs in the overseas.

Mayur Parkeria: But nothing very significant can happen in the next new term of one?

Prakash Kulkarni: One of the very significant thing is we are supplying to around 90 thousand cars in a year that can only run similarly the Logan is being Brazil, Logan is being made in other European countries so there could be a possibility of working up there but there is a plenty of opportunity probably there is being a such in a formative stage we would not like to go more into details on those special things, but to answer your question we are working on very complete possibilities. As a matter of fact that is the one of the export strategy to grow the export business for OEM.

- Mayur Parkeria:** In the same context do we supply to any passenger car OEM in India but further export market like Hyundai or Maruti, for their export market do we have any supplies in that context?
- Prakash Kulkarni:** That (indiscernible) 40.17 which is predominantly an export model by Suzuki India that is being supplied 100% by us.
- Mayur Parkeria:** Any such examples on the Hyundai?
- Prakash Kulkarni:** Definitely we have a joint venture called Mando, which is Anand Group with Mando, which is a Korean company and they supply 100% to the Hyundai Motors to India.
- Mayur Parkeria:** Indica exports are being supplied by us and the new models of Mahindra which they are going to make for export we would be supplying our products to them.
- Farah:** Thank you. Mr. Solanki would you like to ask any question at this time?
- Girish Solanki:** You just made a comment saying that Mando and Anand Group have a joint venture basically who supplies to Hyundai Group. How big is this company?
- Prakash Kulkarni:** That is about I would say about 500 Crore company, which also makes us great, its main products it breaks, and also steering. And also they have got in to the shock absorbers.
- Girish Solanki:** How big are the shock absorbers? How much do they supply?
- Prakash Kulkarni:** Around Rs.150 Crores should be maximum shock absorbers only for Hyundai.
- Girish Solanki:** In the future do we contemplate or do you see this coming to us, because this is normally a promoter group company. In the future are there any prospects of this order from the Hyundai coming into the listed entity Gabriel?
- Prakash Kulkarni:** I think Hyundai we supply for only one model, which is Santro and that continues.
- Girish Solanki:** Santro models you supply from Anand and Mando JV, so you do not contemplate basically any change in that MoU or the agreement that is being?
- Prakash Kulkarni:** I do not change it will happen.

Girish Solanki: I just had one question on the number side. We have seen a stupendous growth in the margins as well as the bottom line this year. How far can we go from here because we see around 10% EBITDA margins this year is there any scope for the improvements, basically your guidance on the margin as well as on the bottom line going ahead?

Prakash Kulkarni: I said, we cannot take about the bottom line, but EBITDA margin we will strive to improve atleast a percent year-over-year.

Girish Solanki: So what you are saying is 11% or something is being targeted based on the cost efficiency I believe?

Prakash Kulkarni: Yes.

Girish Solanki: Okay, that is all from my side. Moderator do we have any question?

Farah: Sir, we have no further questions.

Girish Solanki: Sir, we do not have any further question should I close?

Prakash Kulkarni: Great Girish. Thank you very much for this particular conference. It was a great experience. Thank you very much.

Girish Solanki: I would actually like to thank you for joining and sharing experiences as well as the numbers it us. Thank you sir

Farah: Thank you very much. On behalf of Anand Rathi Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect your lines.