

Stock Update

Earnings pressure to sustain

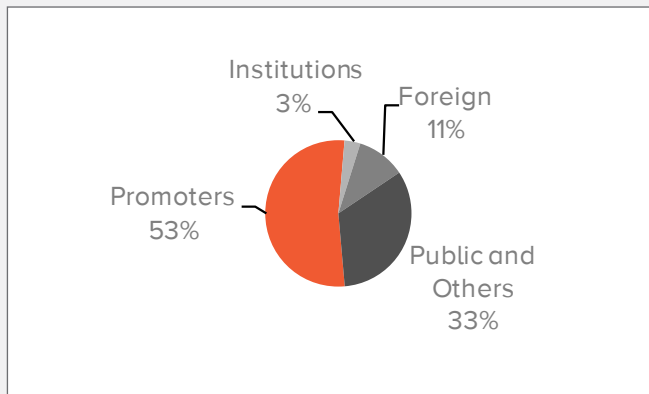
Gabriel India

Reco: Hold | CMP: Rs140

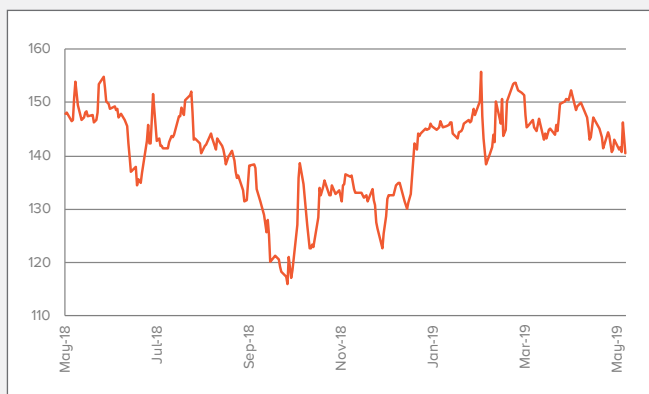
Company details

Price target:	Rs145
Market cap:	Rs2,017 cr
52-week high/low:	Rs159/116
NSE volume: (No of shares)	0.98 lakh
BSE code:	505714
NSE code:	GABRIEL
Sharekhan code:	GABRIEL
Free float: (No of shares)	6.8 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.2	5.3	7.1	-0.7
Relative to Sensex	2.7	0.7	1.3	-7.2

Key points

- Results miss estimates marred by higher raw material costs:** Gabriel India Limited (Gabriel) results were below ours as well as the street estimates. The revenue growth moderated sharply to 3% y-o-y (revenues were in line with estimates) due to a weak demand from OEM's, especially the 2wheeler segment and market share loss in the PV space. Operating margins at 6.7% contracted sharply by 260 bps y-o-y and are significantly below our estimates of 8.2%. The operating margins are the lowest in the past 5 years. Pricing pressures from customers, higher commodity costs (RM/sales up 250 bps yoy) and adverse mix (lower share of passenger vehicles) led to decline in margins. EBIDTA declined 26% y-o-y to Rs 34.3 cr missing our estimates of Rs 41.8 cr. Tracking the weak operating performance, net profit dropped 33% y-o-y to Rs 17.3 cr and significantly missed estimates of Rs 22 crores.
- Earnings pressure to sustain in FY2020 on moderating OEM demand and cost pressures:** The topline growth of Gabriel is expected to moderate in FY2020 given the slowdown in the automotive OEM segment particularly 2W (2 wheeler) and PV (Passenger Vehicle) which contribute about 75% of topline. Weak consumer sentiment driven by slowing economic growth, NBFC liquidity crunch and higher inventory levels are likely to impact the growth. Also, the regulatory cost increases due to braking and safety norms and upcoming BS6 regulations would continue to weigh on the demand. Further, we expect margin decline trend to continue for Gabriel in FY2020. The management has indicated that it is not able to fully pass on cost increases to OEM customers in wake of weak demand environment. Also, Gabriel's product mix is expected to remain adverse with lower share of the PV segment. Gabriel has lost market share in PV segment and expects PV contribution to drop further in FY2020. We expect Gabriel's margins to drop 60 bps in FY2020.
- Outlook: Earnings growth to turn negative in FY2020:** Gabriel's earnings growth is expected to further deteriorate in FY2020. Gabriel is expected to post earnings drop of 3% in FY2020 as against flat growth in FY2019. Moderating OEM demand coupled with cost pressures would lead to drop in the operating margins.

♦ **Valuations: Steep cut in earnings; retain Hold with PT of 145 as we rollover to FY2021 earnings:**

Gabriel's Q4FY2019 results were significantly below the estimates on the operational front. Given the volume slowdown and cost pressures, we have cut our FY2020 earnings estimates by 18%. We rollover our target multiple to FY2021

earnings. We retain Hold rating on the stock with an unchanged PT of Rs 145. At the CMP, the stock is trading at 21.9x and 19.4x its FY20E and FY21E earnings respectively, which is closer to the higher end of its long term historical average multiple, thus leaving limited scope of upside from current levels.

Results					Rs cr	
Particulars	Q4FY2019	Q4FY2018	YoY %	Q3FY2019	QoQ %	
Net Sales	510.3	496.8	2.7	510.0	0.1	
EBIDTA	34.3	46.4	(26.0)	43.1	(20.4)	
EBITDA Margin %	6.7	9.3	(260) bps	8.4	(170) bps	
Depreciation	10.5	10.7	(1.9)	10.0	4.3	
Interest	0.8	0.7	11.2	0.6	35.7	
Other Income	2.7	2.5	10.1	2.6	4.5	
PBT	25.7	37.4	(31.2)	35.0	(26.5)	
Tax	8.4	11.7	(28.0)	13.0	(34.8)	
Adjusted Net Profit	17.3	25.7	(32.7)	22.1	(21.7)	
EPS	1.2	1.8	(32.7)	1.5	(21.7)	

Valuation					Rs cr	
Particulars	FY17	FY18	FY19	FY20E	FY21E	
Net Sales	1,520.6	1,833.1	2,076.5	2,221.8	2,377.3	
Growth (%)	5.7	20.6	13.3	7.0	7.0	
EBIDTA	146.1	171.3	177.8	177.7	199.7	
OPM (%)	9.6	9.3	8.6	8.0	8.4	
Recurring PAT	82.7	94.2	95.0	91.7	103.7	
Growth (%)	9.0	14.0	0.8	-3.5	13.0	
EPS (Rs)	5.8	6.6	6.6	6.4	7.2	
PER (x)	24.3	21.3	21.2	21.9	19.4	
P/BV (x)	4.5	3.8	3.4	3.1	2.6	
EV/EBIDTA (x)	13.8	11.6	11.2	10.5	9.3	
RoCE (%)	22.3	23.0	23.0	20.0	19.7	
RoE (%)	18.4	18.0	16.0	14.0	13.6	

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