Gabriel India Ltd

SELL

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 4QFY20

20 May 2020

Background: Gabriel India Ltd.(GIL) is the flagship company of Anand Group, offering the widest range of ride control products including shock absorbers, struts, and front forks. The Company commenced operations in 1961, with a single plant in Mulund, Mumbai and has grown manifold, currently it has nine manufacturing facilities spread across the country with strong 500 dealer network and 10,000 retail outlets. The company has strong R&D capabilities with over 43 patents in products and process. GIL has technical collaboration with global majors such as KYB (Japan), KYBSE (Spain), Yamaha Motors Hydraulic System Company and KONI.

Sensex	30,818
Nifty	9,066
Price	₹ 73
Target Price (12 months)	₹ 56
Recommendation	SELL

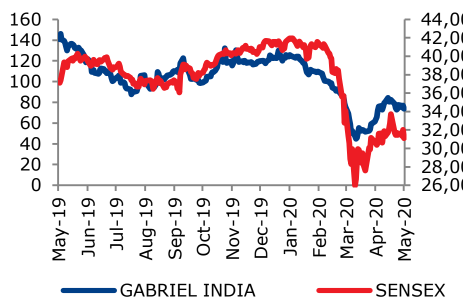
52 Week High/Low	₹143.0/40.2
Bloomberg / Reuters	GABR IN/GABR.BO
Equity (shares in mn)	143.6
Mkt. Cap in bn	₹ 10.5/ $ 0.14
Avg. Daily Vol. ('000)	136.2
Avg. Daily Vol. (mn)	₹ 10.0 /$ 0.1

Shareholding	Mar-19	Dec-19	Mar-20
Promoters (%)	52.8	52.8	52.8
FII (%)	10.8	10.6	10.8
DII (%)	3.5	5.1	5.3
Others (%)	33.0	31.6	31.13
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)

Y/E March	2020	2021E	2022E
Revenue	18.7	13.1	14.5
EBITDA	1.4	1.1	1.2
Adj PAT	0.8	0.7	0.7
Adj EPS*	5.9	4.8	4.9
% growth	(10.8)	(19.0)	3.2
P/E	12.4	15.3	14.8
P/ BV	1.6	1.5	1.4
EV/EBITDA	4.9	6.2	5.8
EV/Sales	0.4	0.5	0.5
Div Yield (%)	1.8	1.4	1.5
ROE (%)	13.0	9.8	9.4

Performance(%)	1M	3M	12M
GCL	19.9	-32.4	-48.0
SENSEX	1.4	-24.6	-16.6



Top line continues to remain under pressure; Cost control measures supported margins; Management expects 30% decline in topline for FY21

- In 4QFY20, Gabriel India's revenue declined by 16.8% YoY to ₹4.2bn. The declining trend in volumes of the 2W and 3W markets (both constitute 68% of sales) in FY20 (-18% YoY and -11% YoY, respectively) continue to drag revenues. Additionally, CV segment was impacted due to production cuts by OEMs.
- The export channel witnessed a sharp decline of 16.8% YoY in 4QFY20. The company is expecting orders from DAF Netherlands and has already secured order from Volkswagen Russia. These orders will be executed beginning from August and October, respectively.
- Segment wise, GIL changed its product mix towards 2W/3W increasing to 67% in 4QFY20 (vs 63% in 4QFY19) by improving market share with key customers. The company's market share in this segment stood at 25%. The segment tilt was also due to a fall in share of the Passenger car segment (PC) impacted by discontinuation of "Maruti omni" due to safety norms, Alto and replacement of Wagon R with newer model where GIL is not the supplier. PC share declined to 20% (vs 22% in 4QFY19).
- Gross Margins increased by 230bps YoY/130bps QoQ on account of decline in raw material prices to 71.6% in 4QFY20 from 73.9% in 4QFY19. The decline in raw material costs is also attributed to a change in segment mix. Additionally, tight operational cost control enabled reduction in employee costs (-5% YoY/ -12.2% QoQ) and other expenses (-15% YoY) thereby supporting EBITDA margins by ~110 bps YoY to 7.8%. PAT increased by 4.5% YoY to ₹847mn. Going forward, the management is focused on improving its cost control measures and implement Import substitution wherever possible.
- From a channel perspective, sales to OEMs constitute 85% of GIL's revenues. The continual decline in OEM sales on account of production cuts has impacted GIL's revenue. Meanwhile, the Aftermarket channel (GIL remains market leader, 13% of sales) despite de-growth in FY20 (-1% YoY) on account of demand challenges, the channel continued to maintain its leadership position and performed better than the industry.
- The company has negative Net debt with cash and other balances to the tunes of ₹567mn. The company is focused on building liquidity to prepare for adverse circumstances caused by the pandemic. However, the Capex for statutory compliance and clients' needs will continue which the management pegges at ~₹500mn while other capex plans have been shelved for now.

Valuation: Slow pick-up in demand coupled with weak outlook on new orders expected to drive revenues lower. However, the management's focus on cost control measures will prop-up margins above 8%. At CMP, the stock is trading at a valuation of 13xFY21E and 12.7xFY22E earnings. We believe the price needs to factor the challenging demand outlook with limited scope for margin expansion and thus maintaining our rating on the stock at SELL with a price target of ₹56 per share, assigning a P/E of 11.3X on FY22EPS.

Risk: Covid-19 induced plant lockdowns, slower than expected recovery in volumes, steep decline in commodity prices.

Results Summary 4QFY20

Y/E March (₹ mn)	4QFY20	4QFY19	YoY Growth	3QFY20	QoQ Growth
Revenue	4,246	5,103	-16.8%	4,555	-6.8%
EBITDA	331	343	-3.5%	322	2.8%
Depreciation	128	105	21.6%	101	26.5%
Other Income	32	27	17.1%	26	23.3%
PBT	223	257	-13.1%	239	-6.5%
Tax	-43	84	-150.6%	63	-167.0%
PAT	266	173	53.7%	176	51.5%
EBITDA Margin (%)	7.8	6.7	15.9%	7.1	10.2%
Tax Incidence (%)	-19.0	32.3	-158.9%	17.1	-211.5%
PAT Margin (%)	6.3	5.3	18.1%	4.7	34.2%

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