

Positive outlook prompts upgrade to BUY...

Gabriel India (GIL) reported a solid Q3FY21 performance. Net sales for the quarter were at ₹ 536.5 crore, up 17.8% YoY, broadly following the underlying volume growth at key OEMs. EBITDA in Q3FY21 was at ₹ 39.1 crore with corresponding EBITDA margins at 7.3% (up 20 bps YoY but down 60 bps QoQ). PAT in Q3FY21 was at ₹ 24.5 crore, up 40% YoY.

Topline prospects healthy; EV opportunity gets bigger

GIL is a leading player in the domestic suspension space with a presence across market segments (2-W, PV, CV formed 67%, 20%, 12% of FY20 sales, respectively). The company commands 25% market share in 2-W, 18% in PV and 75% in CV as of 9MFY21. With ~85% of revenues being derived from OEM channel, ongoing production ramp up at key clients post Covid bodes well for the company. Healthy demand outlook for base user industries (2-W, PV) over FY21E-23E (in part due to low base of present year) along with bottoming out of the domestic CV cycle leads us to estimate ~16% revenue CAGR at GIL over this time period. GIL also offers a play on India's electrification drive courtesy its presence with leading 2-W electric OEMs – with onboarding of Ola Electric for its upcoming electric 2-W offering (as sole supplier) being the latest feather in its cap. GIL has in the past clocked ~9-9.5% margins and expects touching double-digit territory over the next three years to be possible – backed by productivity improvements and focused cost initiatives. Conservatively, we build 8.0% margins for FY21E and 8.5% margins for FY23E.

Q3FY21 conference call – highlights and key takeaways

The company said that – (1) it is already in the global top five players for 2-W and CV segments, (2) GIL is set to be the sole supplier to Ola Electric for its upcoming electric 2-W (front forks, shock absorbers), (3) it wants to take aftermarket and exports combined to >20% of revenues from present ~15%, (4) productivity and efficiency increase along with cost control measures helped offset some input cost pressures (80-85% of input costs are usually passed through but with a lag), (5) cost actions have led to reduction in breakeven points from > 75% of sales to ~70% now with target placed at 65%, (6) GIL sees headroom for double-digit wallet share increase with Maruti Suzuki, (7) FY22E capex guidance is for ~₹ 90-100 crore (vs. ~₹ 50-60 crore usually) & is to be spent on backward integration, automation & technology and (8) net cash as of December 2020 end was at ~₹ 283 crore.

Valuation & Outlook

Over the longer term, GIL retains its ambition to be a top five shock absorber player globally. Healthy topline outlook, potential for margin improvement, strong financials (debt free b/s, double digit return ratios) and EV opportunity help us remain positive on the stock. We introduce FY23E numbers, upgrading it from HOLD to **BUY** with a revised target price of ₹ 150 (i.e. 20x P/E on FY23E EPS of ₹ 7.5; previous target price ₹ 125).

Key Financial Summary

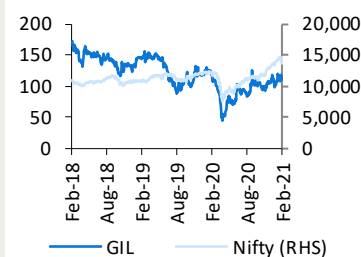
Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	2,077	1,870	1,616	1,925	2,165	15.7%
EBITDA	178	138	91	154	184	41.9%
EBITDA Margins (%)	8.6	7.4	5.7	8.0	8.5	
Net Profit	95	85	48	87	108	49.2%
EPS (₹)	6.6	5.9	3.4	6.1	7.5	
P/E	17.5	19.7	34.5	19.2	15.5	
RoNW (%)	16.1	13.0	7.0	11.5	12.8	
RoCE (%)	23.5	15.4	8.9	15.4	17.1	

Source: Company, ICICI Direct Research

Particulars

Particulars	Amount
Market capitalisation (₹ crore)	1,666.6
Total Debt (FY20, ₹ crore)	7.8
Cash & Investment (FY20, ₹ crore)	134.6
EV (₹ crore)	1,539.8
52 week H/L (₹)	132 / 40
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

Price Chart



Key highlights

- Q3FY21 revenues up ~18% YoY in line with OEM production. Margins down 60 bps QoQ on lower gross margins amid rise in RM costs
- OEM revival is encouraging for topline prospects. Ola electric onboarding broadens EV opportunity

Risks to our call

- Wallet share/market share losses at its key OEM clients
- More than anticipated rise in RM costs and the company's inability to pass it on to its customers

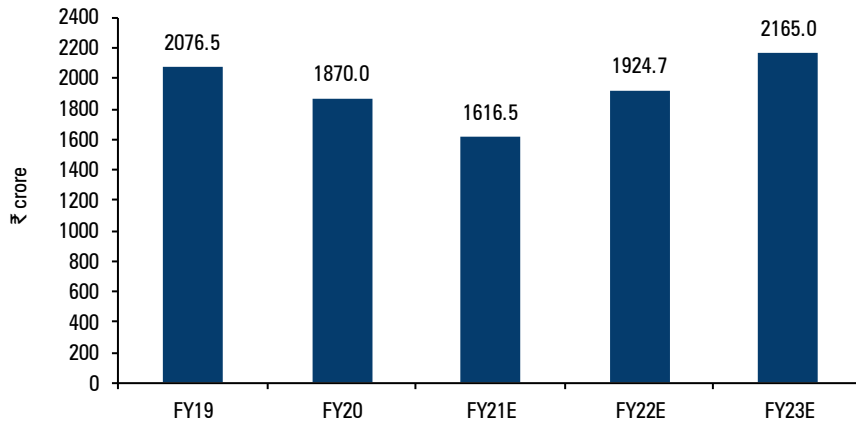
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Financial story in charts

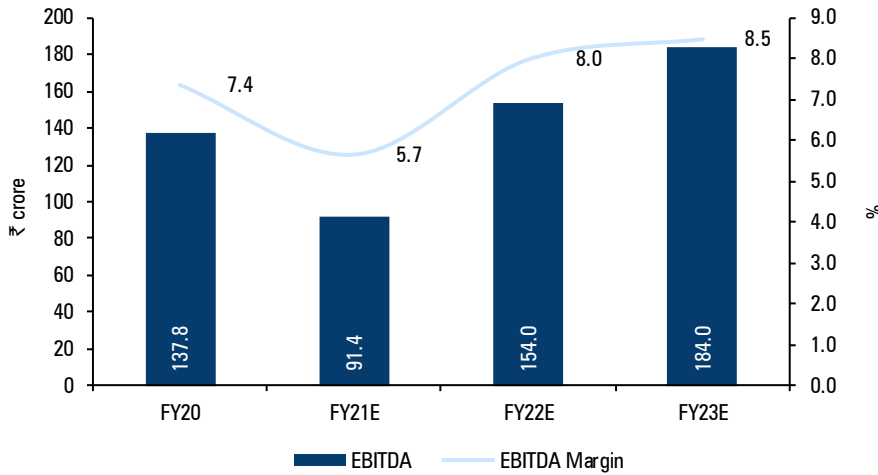
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of ~16% over FY21E-23E

Source: Company, ICICI Direct Research

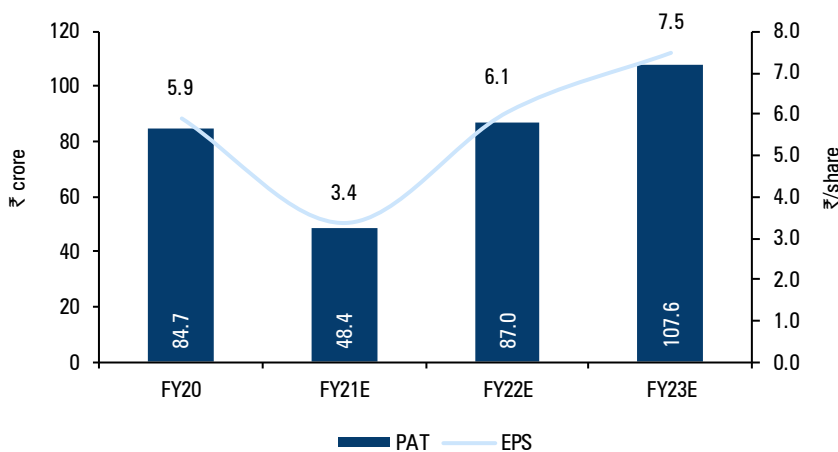
Exhibit 2: Trend in EBITDA and EBITDA margins



Margins are seen increasing to 8.5% levels by FY23E vs. ~5.7% to be clocked for the present year

Source: Company, ICICI Direct Research

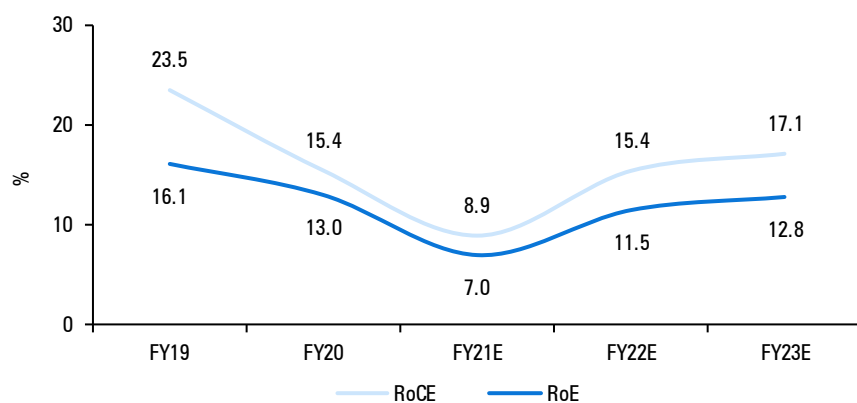
Exhibit 3: Trend in profitability



We expect 49% PAT CAGR over FY21E-23E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



RoCE is seen improving to ~17% levels by FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	1,833	21.2	6.6	25.2	17.7	9.2	17.9	25.2
FY19	2,077	13.3	6.6	0.9	17.5	8.9	16.1	23.5
FY20	1,870	(9.9)	5.9	(10.8)	19.7	11.2	13.0	15.4
FY21E	1,616	(13.6)	3.4	(42.9)	34.5	16.1	7.0	8.9
FY22E	1,925	19.1	6.1	80.0	19.2	9.7	11.5	15.4
FY22E	2,165	12.5	7.5	23.6	15.5	7.9	12.8	17.1

Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1870.0	1616.5	1924.7	2165.0
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,870.0	1,616.5	1,924.7	2,165.0
Growth (%)	2.0	-13.6	19.1	12.5
Raw Material Expenses	1,369.7	1,209.4	1,424.3	1,602.1
Employee Expenses	155.4	145.5	154.0	162.4
Other Operating Expense	207.1	170.1	192.5	216.5
Total Operating Expenditure	1,732.2	1,525.1	1,770.7	1,980.9
EBITDA	137.8	91.4	154.0	184.0
Growth (%)	-19.5	-33.7	68.4	19.5
Depreciation	43.7	43.2	48.9	52.6
Interest	3.6	3.2	2.9	2.6
Other Income	9.7	14.9	14.2	15.0
PBT	100.3	59.8	116.3	143.8
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	15.6	11.5	29.3	36.2
PAT	84.7	48.4	87.0	107.6
Growth (%)	-10.0	-42.9	80.0	23.6
EPS (₹)	5.9	3.4	6.1	7.5

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	84.7	48.4	87.0	107.6
Add: Depreciation	43.7	43.2	48.9	52.6
(Inc)/dec in Current Assets	58.4	-22.0	-64.3	-63.9
Inc/(dec) in CL and Provisions	-47.8	39.7	35.9	14.4
Others	0.9	3.2	2.9	2.6
CF from operating activities	139.9	112.6	110.5	113.2
(Inc)/dec in Investments	-38.0	-60.0	15.0	-30.0
(Inc)/dec in Fixed Assets	-57.3	-35.0	-100.0	-50.0
Others	-10.5	0.0	0.0	0.0
CF from investing activities	-105.8	-95.0	-85.0	-80.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.6	-2.0	-2.0	-2.0
Dividend paid & dividend tax	-26.0	-14.0	-22.3	-27.0
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-0.5	0.0	0.0	0.0
CF from financing activities	-25.9	-16.0	-24.3	-29.0
Net Cash flow	8.2	1.6	1.2	4.2
Opening Cash	48.5	56.8	58.3	59.5
Closing Cash	56.8	58.3	59.5	63.7

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	14.4	14.4	14.4	14.4
Reserve and Surplus	637.4	675.0	742.6	825.8
Total Shareholders funds	651.8	689.4	757.0	840.1
Total Debt	7.8	5.8	3.8	1.8
Deferred Tax Liability	8.0	8.0	8.0	8.0
Minority Interest / Others	5.6	5.6	5.6	5.6
Total Liabilities	673.2	708.7	774.4	855.5
Assets				
Gross Block	768.8	803.4	913.4	963.4
Less: Acc Depreciation	420.2	463.4	512.4	564.9
Net Block	348.6	340.0	401.0	398.5
Capital WIP	19.6	20.0	10.0	10.0
Total Fixed Assets	368.2	360.0	411.0	408.5
Investments	92.3	152.3	137.3	167.3
Inventory	156.1	141.7	158.2	177.9
Debtors	233.3	274.6	316.4	355.9
Loans and Advances	32.4	28.0	33.3	37.5
Other Current Assets	3.9	3.4	4.0	4.5
Cash	56.8	58.3	59.5	63.7
Total Current Assets	482.4	506.0	571.4	639.6
Current Liabilities	273.8	310.0	342.8	355.9
Provisions	26.4	29.9	33.1	34.3
Current Liabilities & Prov	300.2	339.9	375.8	390.2
Net Current Assets	182.3	166.1	195.6	249.4
Others Assets	30.5	30.5	30.5	30.5
Application of Funds	673.2	708.7	774.4	855.5

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	5.9	3.4	6.1	7.5
Cash EPS	8.9	6.4	9.5	11.1
BV	45.4	48.0	52.7	58.5
DPS	1.3	0.8	1.4	1.7
Cash Per Share (Incl Invst)	10.4	14.7	13.7	16.1
Operating Ratios (%)				
EBITDA Margin	7.4	5.7	8.0	8.5
PAT Margin	4.5	3.0	4.5	5.0
Inventory days	30.5	32.0	30.0	30.0
Debtor days	45.5	62.0	60.0	60.0
Creditor days	53.4	70.0	65.0	60.0
Return Ratios (%)				
RoE	13.0	7.0	11.5	12.8
RoCE	15.4	8.9	15.4	17.1
RoIC	19.3	10.4	19.0	22.0
Valuation Ratios (x)				
P/E	19.7	34.5	19.2	15.5
EV / EBITDA	11.2	16.1	9.7	7.9
EV / Net Sales	0.8	0.9	0.8	0.7
Market Cap / Sales	0.9	1.0	0.9	0.8
Price to Book Value	2.6	2.4	2.2	2.0
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.4	1.3	1.4	1.5
Quick Ratio	0.9	0.9	0.9	1.0

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: < -15%



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