Stock Update

Event Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Gabriel India Ltd

On a firm track

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ⇔	CMP: Rs. 117	Price Target: Rs. 141 ⇔

↑ Upgrade ⇔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		⇔	
RQ		⇔	
RV		⇔	

Company details

Market cap:	Rs. 1,681 cr
52-week high/low:	Rs. 168 / 102
NSE volume: (No of shares)	3.75 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	1.3
DII	9.2
Others	34.5

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	7.1	3.7	-14.9	-9.0
Relative to Sensex	7.3	8.7	-7.7	-10.5

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Gabriel India Limited's (Gabriel's) with an unchanged PT of Rs. 141, factoring in recovery in automotive demand, its preparedness to benefit from the adoption of EVs in India, and attractive valuations.
- EV remains the key growth driver for Gabriel, as its key clients are getting geared up for EV product development and new product launches.
- Gabriel's dominant position in suspension components to remain intact, led by its strong relationship with OEMs and brand recall in aftermarket.
- Gabriel's earnings are set to report a 32% CAGR over FY22E-FY24E, driven by a 15.5% revenue CAGR and a 160-bps expansion in EBITDA margin to 7.9% in FY24E from 6.3% in FY22.

We continue to maintain our positive view on Gabriel India Ltd. (Gabriel), as we expect the company to outpace the industry growth, given its dominant position in suspension components, new launches in automotive segments and an increase in electric vehicle (EV) adoption in India. During our interaction with the management today, we found the management positive about the growth outlook for the medium term, led by an expected recovery in rural and urban demand. The company is witnessing a strong recovery in sales across segments, especially in Q1FY23 so far. The current fire accidents in e-2W segments and subsequent government intervention on quality checks is a temporary and initial hiccups of the new growing EV sector. The management remains optimistic on volume growth and expects the next few years to remain strong, as the company is well prepared to scale up its capacity with the rising EV demand in the country. Gabriel is focusing on the electric vehicle (EV) segment by building relationships with key OEMs engaged in e-2Ws, e-3Ws and e-PV. Based on the company's well-thought and workable strategies and its inherent capabilities, we expect Gabriel's net earnings to grow 32% CAGR over FY22E-FY24E, driven by a 15.5% revenue CAGR and a 160-bps expansion in EBITDA margin to 7.9% in FY24E from 6.3% in FY22. We retain Buy on the stock, with a price target (PT) of Rs. 141.

- **Well positioned to benefit from the increasing share of EVs:** Gabriel is well positioned to benefit from the rising penetration of EVs, especially in the 2W and 3W segments, where the company has developed strong relationships with leading and promising companies. The company is developing products for electric vehicle OEMs such as OLA Electric, Okinawa, Ather Energy, TVs among e-2W OEMs, and Bajaj Auto, M&M, Tube Investment of India among e-3W OEMs. Gabriel is also a sole supplier to Ola Electric for suspension components in India, which promises to be a strong EV player in the 2W space.
- **Dominance in market shares to remain intact:** Riding on strong relationships with large OEMs and the acquisition of new clients, the company continues to increase and maintain its market share across segments, with 25% market share in the 2W&3W segment, 22% in the PV segment and an 85% market share in the CV segment, including aftermarket sales.
- **Robust earnings growth:** Propelled by a strong outlook for its clients, we expect Gabriel's net earnings to post a 32% CAGR over FY22E-FY24E, driven by a 15.5% revenue CAGR and a 160-bps expansion in EBITDA margin to 7.9% in FY24E from 6.3% in FY22.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 141: Gabriel is witnessing strong traction from domestic and global original equipment manufacturers (OEM), as automotive demand recovers, driven by a strong brand recall and a leadership position in suspension components. The outlook remains positive, driven by the normalisation of economic activities. Incremental revenue is likely to improve, driven by client additions, new product launches, sector expansion, increasing domestic and global penetration, and value additions in its products. Operating profit margin (OPM) would expand led by cost reduction, increased localisation, operating leverage, and enhanced value addition. We believe Gabriel's business performance will continue to outperform the industry led by its leadership position and its preparedness to benefit from faster EV adoption. The stock has corrected by ~15% in the past three months and is available at attractive valuations of 10.8x P/E multiple and 5.9x EV/EBITDA multiple its FY24E estimates. We maintain our Buy rating on Gabriel with an unchanged PT of Rs. 141, aided by a recovery in automotive demand, its preparedness to benefit from the adoption of EVs in India, and attractive valuations.

Key Risks

Pricing pressures from automotive OEM customers can impact profitability.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenues	1,700	2,334	2,694	3,115
Growth (%)	(9.1)	37.3	15.4	15.6
EBIDTA	108	148	199	246
OPM (%)	6.3	6.3	7.4	7.9
Net Profit	54	90	124	156
Growth (%)	(35.7)	64.4	38.7	25.7
EPS	3.8	6.2	8.6	10.9
P/E	30.9	18.8	13.5	10.8
P/BV	2.4	2.2	2.0	1.8
EV/EBIDTA	14.3	10.5	7.6	5.9
ROE (%)	7.9	11.8	14.7	16.3
ROCE (%)	11.8	16.8	20.7	22.9

Source: Company; Sharekhan estimates

Key takeaways from the management meet

EV growth to remain the fastest growth driver for the company: Gabriel is the largest domestic manufacturer of suspension components and is well positioned to benefit from the rising penetration of EVs, especially in the 2W space. The company has been selectively identifying partners in e-2W and e-3W segments, given a large number of new entrants, which includes start-ups as well as big players. The company has a strong presence in EV OEMs in 2W and 3W segments such as OLA Electric, Okinawa, Ather Energy, e-2Ws and Bajaj Auto, M&M, and Tube Investment of India among e-3W OEMs. The company's market share in e-2W is currently ~50% for suspension products, which the company expects to maintain in the long run. The current fire incidents in e-2W have slowed down the growth in e-2Ws in May-June'22 sales. The management expects it to be temporary phenomenon and expects the volumes to normalise soon. The new entrants are technologically well equipped and would be able to deliver on the requisite quality, as intervened by the Government.

Diversified product portfolio with strong market share across segments: Riding on strong relationships with large OEMs and acquisition of new clients, the company continues to increase and maintain its market share across segments, with a 25% market share in 2W&3W segment, 22% in PV segment and a 85% market share in the CV segment, including aftermarket sales. The company has a strong order book, including promising launches in 2W, 3W, PV and CV segments. The company's outlook on automotive segment is positive for FY23E. It expects strongest growth in CV segment to grow at 20-25% in FY23E, while PV segment is expected to grow at 9-10%. The company expects a flat growth in 2W segment in the current year. In the passenger vehicle segment, the company has a strong order book, that includes suspension supplies to Maruti Suzuki (Jimny), Stellantis, M&M, Volkswagen and Tata Motors. The company's order book in the CV segment remains strong with new orders from Volvo, JBM, and DAF, besides its existing business from Tata Motors, Ashok Leyland and M&M.

Renewed focus on aftermarket: Gabriel has a stronghold in the aftermarket with ~40% market share in the products it sells through its outlets. The company has a strong brand recall in shock absorbers and struts (contributes ~88% of aftermarket sales), which it is leveraging in the aftermarket markets to launch new products. Gabriel's key strategies are set to increase its aftermarket sales, leveraging its existing OEMs and OESs relationships, focusing on tier-2 and 3 cities, engaging with mechanics, reaching out closer to customers through retailers, and adding new products to the basket.

Capex plans: Gabriel can produce 36 million units of suspension components and can increase capacity by another 10-15% through debottlenecking. The company is planning to invest towards creating capacity for backward integration and reducing dependence on imports. Gabriel is contemplating increasing local procurement through creating captive capacity and engaging local suppliers. The company has made a capex of Rs66.8 crore in FY22 and has increased its capex to Rs100-120 crore in FY23E. The capacity utilisation during the Q4FY22- was~65% for 2Ws and PCs segments, while ~70% for CVs.

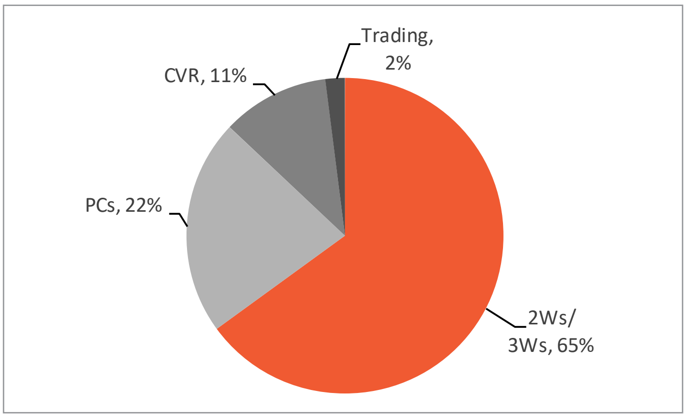
Management gave a cautiously positive outlook: Management was optimistic about the outlook over the medium term, led by all-around robust sales across segments. The company continues to benefit from its other clients such as M&M in the PV segment. The company expects to grow faster than the industry, led by increased business from existing clients, new orders and an increase in geographical penetration. In terms of margin expectation, the company expects to reach a double-digit EBITDA margin in 2-3 years, through cost-reduction measures, increased localisation, operating leverage, and enhancing value addition.

Other highlights of the meeting

- The company's market share in the passenger vehicle segment has inched up to ~23% in FY22 from 21% in H1FY22, while market share for commercial vehicle segment has improved to 85% in FY22 from 75% in H1FY22. The market shares in 2W and 3W segments remains at 25%, with EV market share at 50% at end-FY22.
- The growth in railways segment still remain muted due lower offtake from the Government. The company expects tendering process to start from government, which will increase revenues going forward.
- The Q4FY22 margins was impacted due to increase in raw material prices. The contractual agreement with clients have recovery with some lag period. The company expects margins to improve in coming quarters.
- 2W auto segment has seen recovery in production from April month onwards, led by a growth in rural and semi-urban segments.

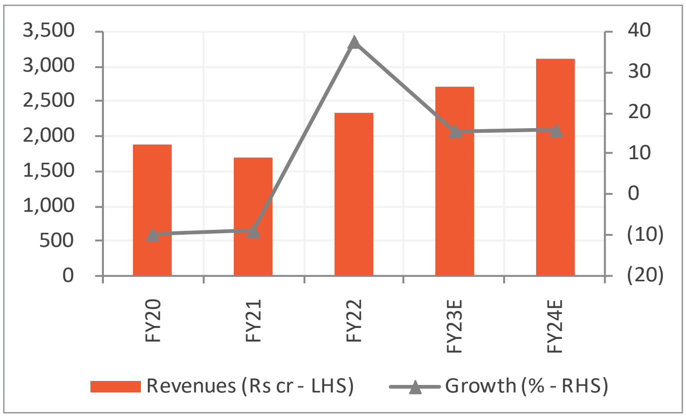
Financials in charts

Revenue Mix (%)



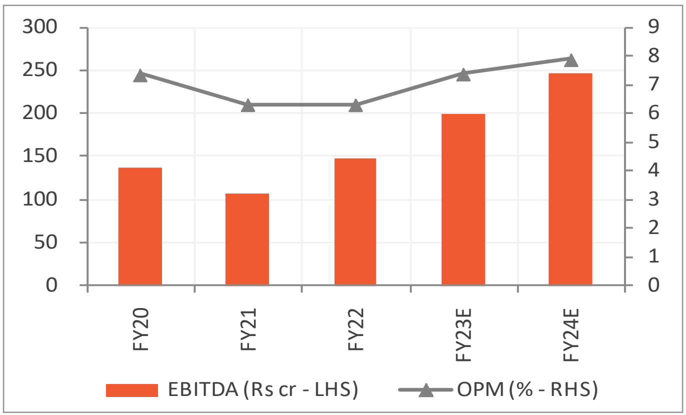
Source: Company, Sharekhan Research

Revenue and Growth Trend



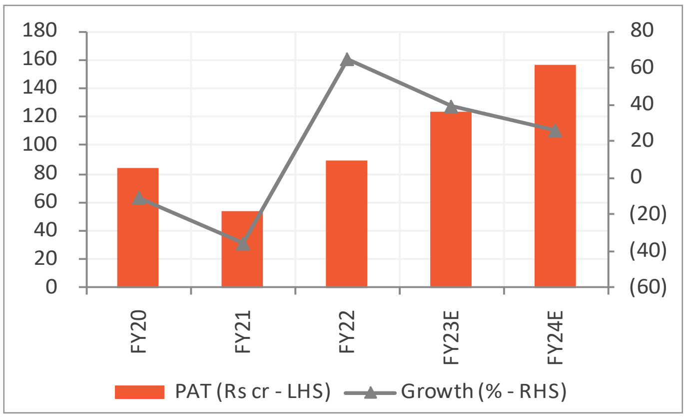
Source: Company, Sharekhan Research

EBITDA and OPM Trend



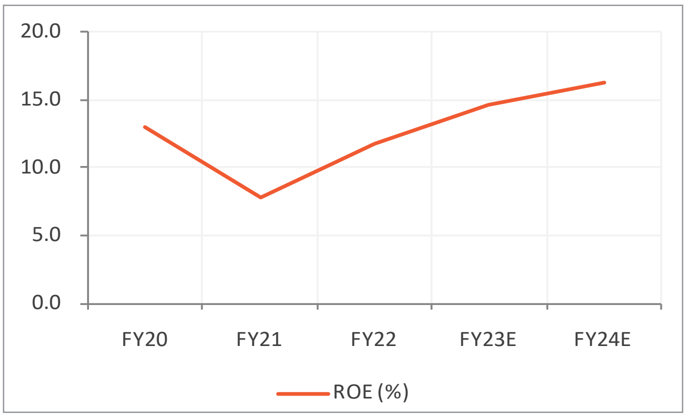
Source: Company, Sharekhan Research

PAT and Growth Trend



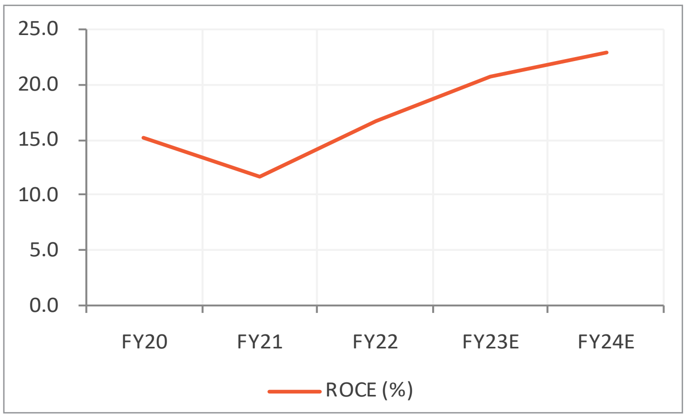
Source: Company, Sharekhan Research

ROE Trend



Source: Company, Sharekhan Research

ROCE Trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Auto demand revving up

We remain positive on demand for the 2W, PV and CV industry in the medium term and expect recovery across sub-segments after the normalisation of economic activities, led by the pent-up demand from rural, semi-urban, and urban demand along with a favourable macro-outlook. 2W and PV demand is expected to remain strong amid COVID-19, as a preference for personal transport and the two-wheeler segment remains the most affordable mode of transport. Rural sentiments continue to remain strong, aided by strong farming income and positive prediction for monsoon this year. The CV demand is expected to remain robust for the next 2-to 3 years, driven by an increase in infrastructure and mining activities. Export markets have witnessed a notable recovery in volume sales offtake across regional markets.

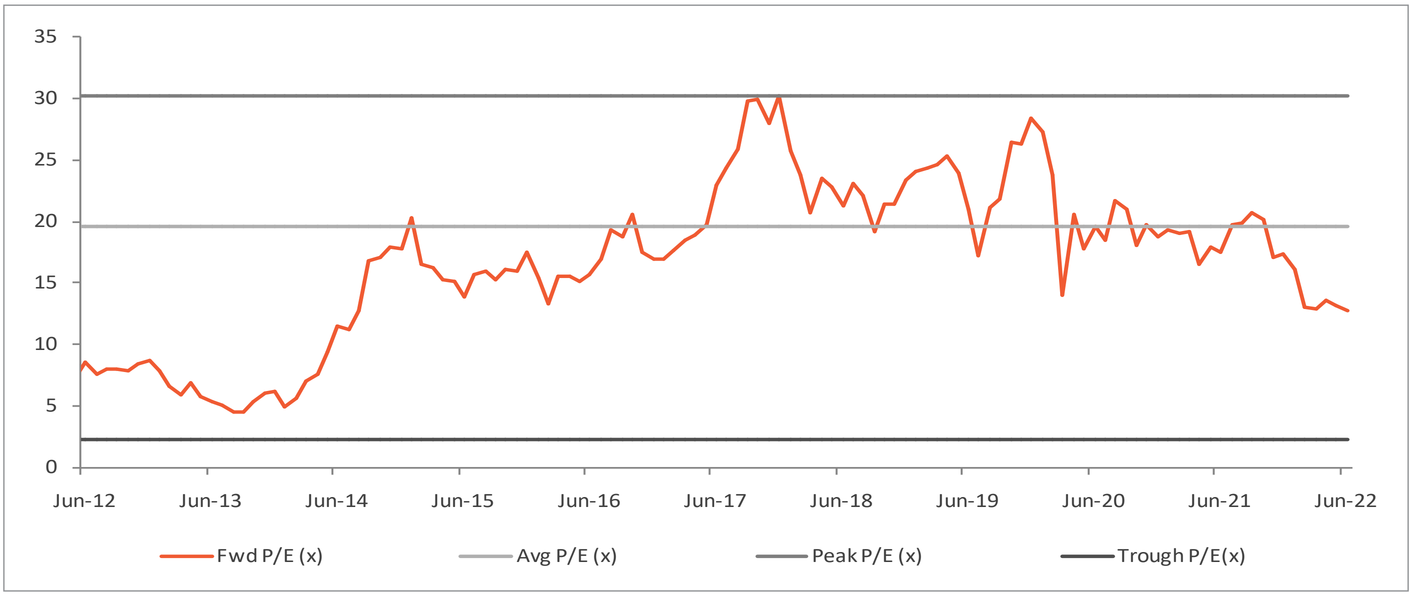
■ Company outlook - Beneficiary of leadership position, client relationships, technological edge, and strong earnings growth

Gabriel is expected to be among the top beneficiaries of the rising penetration of e-2Ws/e-3Ws in India due to its strong brand, leadership, and technological edge. The company has laid down its plans to increase its market share across segments through leveraging its established relationships with domestic OEMs, global OEMs, and OESs. The company has one of the best suspension component technologies in the 2W, 3W, and CV segments. The company has a technology collaboration with KYB (Japan) for the passenger cars segment and KONI (Netherlands) for the CV segment, where it is working on the latest technology that can be evolved in Indian markets. The company expects faster growth in the aftermarket and export segments, which will be a key differentiator for the company, aiming to be among the top five global manufacturers of shock absorbers.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 141

Gabriel is witnessing strong traction from domestic and global original equipment manufacturers (OEM), as automotive demand recovers, driven by a strong brand recall and leadership position in suspension components. The outlook remains positive, driven by the normalisation of economic activities. Incremental revenue is likely to improve, driven by client additions, new product launches, sector expansion, increasing domestic and global penetration, and value additions in its products. Operating profit margin (OPM) would expand led by cost reduction, increased localisation, operating leverage, and enhanced value addition. We believe Gabriel's business performance will continue to outperform the industry led by its leadership position and its preparedness to benefit from faster EV adoption. The stock has corrected by ~15% in the past three months and is available at attractive valuations of 10.8x P/E multiple and 5.9x EV/EBITDA multiple its FY24E estimates. We maintain our Buy rating on Gabriel with an unchanged PT of Rs. 141, aided by a recovery in automotive demand, its preparedness to benefit from the adoption of EVs in India, and attractive valuations.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs cr)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gabriel India	117	18.8	13.5	10.8	10.5	7.6	5.9	16.8	20.7	22.9
GNA Axles	511	12.4	9.5	7.8	6.9	5.5	4.4	17.4	19.9	20.7
Lumax Auto Technologies	172	13.9	10.9	9.5	7.3	5.8	5.4	17.4	19.1	19.1

Source: Company; Sharekhan Research

About company

Gabriel is the flagship company of the Anand Group and is one of the leading manufacturers of suspension components. The company's portfolio includes a range of ride control products, which consist of shock absorbers, struts, and front forks for every automotive segment. The company's business units include CV and railways, 2W and 3W, passenger cars, and aftermarket. Gabriel manufactures front forks and rear shock absorbers for 2W; McPherson struts and shock absorbers for passenger cars; cabin dampers, seat dampers, and suspension shock absorbers for CVs and shock absorbers for railway coaches. The company's ride control products for various segments are marketed across the globe. Gabriel has seven manufacturing facilities and four satellite facilities.

Investment theme

Gabriel has a leadership position and a strong brand recall in the manufacturing of suspension components in India. The company has a strong presence across segments with 25% market share in the 2W and 3W segments, 18% in the PV segment, and 75% market share in the CV segment. Gabriel has a stronghold in the aftermarket market with ~40% market share in the products it sells through its outlets. Moreover, the company is well positioned to benefit from the government's push toward the fast adoption of EVs. Gabriel is already developing products for EV OEMs such as OLA Electric, Okinawa, Ather Energy, and TVS among e-2W OEMs, and Bajaj, M&M, and Tube Investment among e-3W OEMs. We expect Gabriel to be among the top beneficiaries of the increase in penetration of e-2W and e-3W due to its strong brand, leadership, and technological edge. The company has well laid down its plans to increase its market shares across segments through leveraging its established relationships with domestic OEMs, global OEMs, and OESs. The company has one of the best suspension component technologies in the 2W, 3W, and CV segments through in-house R&D and technical collaborations with KYB (Japan) and KONI (Netherlands). Based on the company's well-thought and workable strategies and its inherent capabilities, we expect Gabriel to benefit in the medium to long term. Thus, we recommend a Buy rating on the stock.

Key Risks

Pricing pressures from automotive OEM customers can impact profitability.

Additional Data

Key management personnel

Ms. Anjali Singh	Executive Chairperson
Mr. Manoj Kolhatkar	Managing Director
Mr. Jagdish Kumar	Group President & Group CFO
Mr. Rishi Luharuka	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Asia Investments Pvt. Ltd.	50.4
2	KYB Corp.	5.5
3	PINEBRIDGE INVESTMENTS LP	2.7
4	HDFC Small Cap Fund	5.5
5	Anand Deep C	1.5
6	ICICI Lombard General Insurance Company Ltd.	1.5
7	Anand Kuldip Chand	1.2
8	Plutus Wealth Management LLP	1.0
9	Matthews International Capital Man	0.5
10	ANAND KIRAN D	0.4

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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