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Stock Update

Gabriel India Limited

Strong Q4FY2021 results

Automobiles	Sharekhan code: GABRIEL	Company Update

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		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 124**	
Price Target: **Rs. 160**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

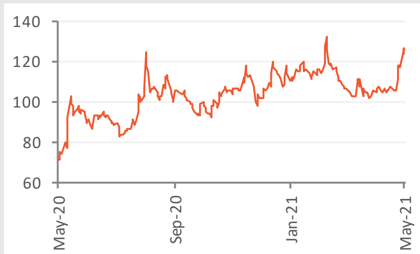
Company details

Market cap:	Rs. 1,781 cr
52-week high/low:	Rs. 135 / 69
NSE volume: (No of shares)	6.1 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.8 cr

Shareholding (%)

Promoters	55.0
FII	4.6
DII	5.8
Others	34.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	x	x	x	x
Relative to Sensex	x	x	x	x

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on Gabriel India Limited (Gabriel) with an unchanged PT of Rs. 160, factoring in recovery of automotive demand after wave-2 of COVID recedes and its preparedness to benefit from adoption of e-2W in India.
- Q4FY2021 results were strong, aided by EBITDA margin expansion despite the sharp rise input cost.
- Net earnings are set to report a 52.9% CAGR over FY2021E-FY2023E, driven by a 17.3% CAGR during FY2021E-FY2023E and a 250 bps rise in EBITDA margin.
- The stock trades at attractive P/E multiple of 14x and EV/EBITDA multiple of 7.6x its FY2023E estimates.

We retain our Buy rating on Gabriel India Limited (Gabriel) with an unchanged PT of Rs. 160, factoring in recovery of automotive demand after wave-2 of COVID recedes and its preparedness to benefit from adoption of e-2W in India. The company reported strong Q4FY2021 results, aided by EBITDA margin expansion despite the sharp rise input cost. Net revenue increased by 36.8% y-o-y to Rs. 581 crore, largely driven by robust offtake from OEMs and continued growth momentum in the aftersales market. The company has a strong presence across segments with 25% market share in the two-wheeler (2W) and three-wheeler (3W) segment, 18% in the passenger vehicle (PV) segment, and 75% market share in the commercial vehicle (CV) segment. The company has improved its market share in the 2W segment, driven by change in product mix. Exports continued to remain Gabriel's key focus area, with exports contribution improving from 2% in Q4FY2020 to 5% in Q4FY2021, aided by new orders from DAF and Volkswagen. EBITDA margin improved by 70 bps y-o-y and 120 bps q-o-q to 8.5% in Q4FY2021, ahead of our expectations, driven by favourable product mix and cost-reduction initiatives. Margin expanded despite the pressure of rising raw-material costs. Impacted by adverse commodity price movement, gross margin declined by 300 bps y-o-y to 25.3% in Q4FY2021. On a y-o-y basis, gross margin improved by 90 bps. Gabriel's PBT stood at Rs. 40.7 crore in Q4FY2021, improving by 82.1% y-o-y and 24.4% q-o-q. Net profit increased by 4.1% y-o-y due to tax reversal in Q4FY2020. Management is cautiously optimistic on the outlook over the medium term, with caution on the near term due to lockdown in the country. Management expects business and economic activities to normalise from June 2021. Most clients have continued to maintain their production schedules. The company has won new domestic and export orders across segments in FY2021 and expects its business from Maruti Suzuki to improve substantially in FY2022. We remain positive on Gabriel, owing to its leadership position and brand recall in the suspension components of the domestic automotive industry and a key beneficiary of improving automotive demand. Gabriel's discussions with Ola Electric have progressed and the company will be the sole supplier for suspension requirements. Based on the company's well-thought and workable strategies and its inherent capabilities, we expect Gabriel's net earnings to post a 52.9% CAGR over FY2021E-FY2023E, driven by a 17.3% CAGR during FY2021E-FY2023E and a 250 bps rise in EBITDA margin at 8.8%. We retain Buy on the stock.

Key positives

- Strong EBITDA margin expansion of 120 bps q-o-q to 8.5% in Q4FY2021, driven largely by cost reductions.
- Market share gains across segments, driven by increased business from existing clients and new order wins.
- Backward integration helped to reduced raw-material costs by 11% y-o-y in FY2021.

Key negatives

- Gross margin was under pressure in Q4FY2021, declining by 300 bps y-o-y to 25.3% due to rise in raw-material costs.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 160: Gabriel is witnessing strong traction from domestic and global original equipment manufacturers (OEM), as automotive demand recovers, driven by strong brand recall and leadership position in suspension components. The outlook remains positive with recovery expected from Q2FY2022, driven by normalisation of economic activities and roll-out of COVID-19 vaccination in the country. The company is expected to improve its incremental revenue, driven by client additions, new product launches, sector expansion, increasing domestic and global penetration, and value additions in its products. OPM would expand by cost-reduction measures, increased localisation, operating leverage, and enhanced value addition. We believe Gabriel will report strong earnings CAGR of 52.9% over FY2021E-FY2023E, driven by a 17.3% CAGR during FY2021E-FY2023E and a 250 bps rise in EBITDA margin at 8.8%. The stock is attractively valued, below its historical average at a P/E multiple of 14x and EV/EBITDA multiple of 7.6x its FY2023 estimates. We maintain Buy on Gabriel with an unchanged price target (PT) of Rs. 160.

Key risk

Prolonged second wave of COVID-19 can hamper economic activities and, thus, adversely impact our estimates. Moreover, pricing pressures from OEMs may hit profitability.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenues	2,076	1,870	1,700	2,025	2,339
Growth (%)	13.3	(9.9)	(9.1)	19.1	15.5
EBIDTA	178	138	108	168	206
OPM (%)	8.6	7.4	6.3	8.3	8.8
Net Profit	95	85	54	101	127
Growth (%)	0.8	(10.8)	(35.7)	84.9	26.5
EPS	6.6	5.9	3.8	7.0	8.9
P/E	18.8	21.0	32.7	17.7	14.0
P/BV	3.0	2.7	2.6	2.3	2.1
EV/EBITDA	9.8	12.6	15.2	9.6	7.6
ROE (%)	16.1	13.0	7.9	13.2	14.9
ROCE (%)	21.4	15.3	11.8	17.8	20.0

Source: Company; Sharekhan estimates

Strong performance in Q4FY2021: Q4FY2021 results were strong, aided by EBITDA margin expansion, despite sharp rise input cost. Net revenue increased by 36.8% y-o-y to Rs. 581 crore, largely driven by robust offtake from OEMs and continued growth momentum in the aftersales market. 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. The company improved its market share in the 2W segment, driven by change in product mix. Exports continued to remain Gabriel's key focus area, with exports contribution improving from 2% in Q4FY2020 to 5% in Q4FY2021, aided by new orders from DAF and Volkswagen. EBITDA margin improved by 70 bps y-o-y and 120 bps q-o-q to 8.5% in Q4FY2021, ahead of our expectations, driven by favourable product mix and cost-reduction initiatives. Margin expanded despite pressure of rising raw-material costs. Impacted by adverse commodity price movement, gross margin declined by 300 bps y-o-y to 25.3% in Q4FY2021. On a y-o-y basis, gross margin improved by 90 bps. Gabriel's PBT stood at Rs. 40.7 crore in Q4FY2021, improving by 82.1% y-o-y and 24.4% q-o-q. Net profit increased by 4.1% y-o-y due to tax reversal in Q4FY2020. The company announced final dividend of Rs. 0.70/share, taking overall dividend of Rs. 0.90/share in FY2021.

Management gave cautiously positive outlook: Management was cautiously optimistic on the outlook over the medium term, with caution on the near term due to lockdown in the country. Management expects business and economic activities to normalise from June 2021. Most clients have continued to maintain their production schedules. The company has won new domestic and export orders in FY2021 across the segments and expects its business from Maruti Suzuki to improve substantially in FY2022. The company continues to benefits from its other clients such as M&M in the PV segment. In terms of margin expectation, the company expects to reach double-digit EBITDA margin in 2-3 years, through cost-reduction measures, increased in localisation, operating leverage, and enhancing value addition.

Impact of wave-2 COVID: The company's facilities were open during the second wave of COVID, except its Nashik plant, which was shut down for one week due to the government's notification. Management's average production levels were down, but not significantly. Most OEMs continue to guide robust production schedule for the company. June month's production schedules are 80%-90% of normal levels. However, OEMs have given a rider in case wave-2 gets prolonged than expectations.

Business update with Ola Electric: The company continues to work with numerous electric vehicle (EV) players on product development. Gabriel's discussions continued to progress with Ola Electric, which is planning to produce two million e-2Ws in India. Gabriel has signed a letter of intent with Ola Electric for supplying suspension components for its production in India solely. The company is in the production development stage. Content per vehicle with Ola Electric is expected to be higher as compared to its average content per vehicle. The company will manufacture suspension components for Ola Electric in its Hosur plant and would invest in machinery and equipment. Gabriel may look for further greenfield facility, if Ola Electric scales up its production to desired levels of 1 million-2 million e-2W units. The company is currently working on hardware components for EVs. Though Gabriel has the technology for electronic suspension, it is not a viable business in India currently. Costs of electronic suspension are expensive, and it is used mainly in bikes with 1,000cc+ capacity.

Ramping up capabilities for the EV business: Gabriel is the largest domestic manufacturer of suspension components and is well positioned to benefit from 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-up as well as big players. The company is developing products for EV 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.

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 become less dependent on imports. Gabriel is contemplating to increase local procurement through creating captive capacity and engaging local suppliers. The company has budgeted ~Rs. 25 crore towards its localisation project in addition to its regular capex of Rs. 50 crore-70 crore in a year. Backward integration helped to reduced raw-material costs by 11% y-o-y in FY2021. It is further expected to reduce raw-material cost by 3% in FY2022.

Results (Standalone) **Rs cr**

Particulars	Q4FY21	Q4FY20	% yoy	Q3FY21	%qoq
Net Sales	580.7	424.6	36.8	536.5	8.2
EBIDTA	49.3	33.1	49.0	39.2	25.8
EBITDA Margin %	8.5	7.8	70 bps	7.3	120 bps
Depreciation	11.2	12.8	-12.3	11.8	(5.3)
Interest	3.7	1.1	222.0	0.9	312.5
Other Income	6.2	3.2	97.5	6.2	0.2
PBT	40.7	22.3	82.1	32.7	24.4
Tax	13.0	(4.3)	NA	8.1	59.9
Adjusted Net Profit	27.7	26.6	4.1	24.6	12.6
EPS	1.9	1.9	4.1	1.7	12.6

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Auto demand revving up in India and around the globe

H2FY2021 was a half-year performance for both automobile and auto-ancillary companies, in-line with expectations. Sales as well as operational performance improved, with some companies reporting their highest-ever sales and profits. Q3FY2021 was a strong comeback after a clean washout in Q1FY2021. Companies learned the hard way to improve operational efficiencies, which has led to strong foundations for a structurally improved operational performance in the long run. A shift towards digitalisation, controlling of administrative costs, focus on core business, and expansion of business through product innovations were key factors that resulted in superior results. We expect recovery to remain strong across the automobile segments in FY2022 and FY2023, not only in India but also globally, driven by normalisation of economic activities and roll-out of COVID-19 vaccines in India. Companies are better prepared to handle situations in the second wave of COVID, as compared to the previous year.

■ Company Outlook – Beneficiary of leadership position, established relationship with clients, technological edge, and strong earnings growth

Gabriel is expected to be among the top beneficiaries of rising penetration of e-2Ws/e-3Ws in India due to a strong its brand, leadership, and technological edge. The company has well 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 best suspension component technologies in 2W, 3W, and CV segments. The company has 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. 160

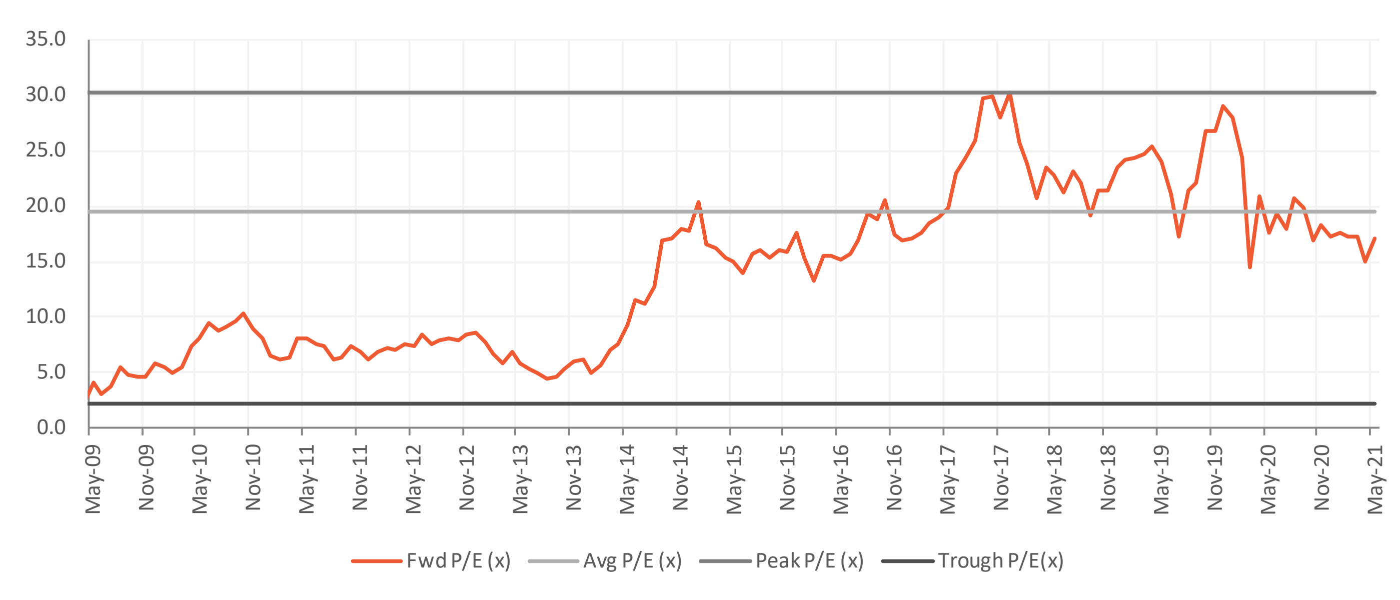
Gabriel is witnessing strong traction from domestic and global OEMs, as automotive demand recovers, driven by a strong brand recall and leadership position in suspension components. The outlook remains positive with recovery expected from Q2FY2022, driven by normalisation of economic activities and roll-out of COVID-19 vaccination in the country. The company is expected to improve its incremental revenue, driven by client additions, new product launches, sector expansion, increasing domestic and global penetration, and value additions in its products. OPM would expand led by cost-reduction measures, increased localisation, operating leverage, and enhanced value addition. We believe Gabriel will report a strong earnings CAGR of 52.9% over FY2021E-FY2023E, driven by a 17.3% CAGR during FY2021E-FY2023E and a 250 bps rise in EBITDA margin at 8.8%. The stock is attractively valued, below its historical average at a P/E multiple of 14x and EV/EBITDA multiple of 7.6x its FY2023 estimates. We maintain Buy on Gabriel with an unchanged PT of Rs. 160.

Price Target Calculation

	Rs/Share
FY23E EPS	8.9
Target P/E Multiple (x)	18
Target Price	160
Upside (%)	29%

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
		FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Gabriel India	124	32.7	17.7	14.0	15.2	9.6	7.6	11.8	17.8	20.0
GNA Axles	440	13.4	11.8	10.3	7.5	6.3	5.4	15.3	15.6	16.5
Lumax Auto Technologies	151	22.1	15.6	12.7	10.8	7.9	6.5	11.4	14.4	15.6

Source: Company, Sharekhan estimates

About company

Gabriel is the flagship company of 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 strong brand recall in 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 shares 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 towards 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 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

- The second wave of COVID-19 can lead to slowdown in economic activities again and can impact the company's revenue growth.
- 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 Website

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

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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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