

Extending SUV, EV gameplay with prominent names...

About the stock: Gabriel India (GIL) is a global top-10 shock absorber manufacturer serving 2-W, 3-W, PV, CV, railway and aftermarket segments.

- FY22 revenue mix – ~65% 2-W, 3-W, ~22% PV, ~13% CV & railways
- FY22 market share – 25% in 2-W, 3-W, 23% in PV, 85% in CV & railways
- On-boarded EV players in 2-W, 3-W space and sole supplier for Ola Electric

Q1FY23 Results: GIL posted healthy Q1FY23 results.

- Net sales for the quarter came in at ₹ 721 crore, up 5.4% QoQ
- Margins jumped 160 bps sequentially to 7.1% with EBITDA at ₹ 51 crore
- PAT rose 22% QoQ to ₹ 33 crore, supported by operating margins gains

What should investors do? GIL's stock price has de-grown at ~3% CAGR from ~₹ 166 levels (August 2017), underperforming the broader Nifty Auto index.

- We retain **BUY** rating on the stock amid EV immune product profile, prominent EV OEMs on-board and presence in SUV segment (Grand Vitara, New Brezza at Maruti; XUV700, New Thar at M&M among others)

Target Price and Valuation: Upgrading our estimates, we now value GIL at 15x P/E on FY24E for a revised target price of ₹ 170/share (earlier target price ₹ 140).

Key triggers for future price performance:

- We build ~17% net sales CAGR in FY22-24E on new client addition and expected pickup in volumes across all segment (incl. EV) over FY22-24E
- EV-proof products; along with presence among major EV players as clients with leading market share in EV suspension space (~60% market share)
- Softening input price, cost focus (through CORE 90 programme), greater focus on aftermarket and exports, margins are seen rising to 7.5% by FY24E
- Strong ambition to be in top five shock absorber supplier through increasing export share, newer technology & new clients
- Net debt free b/s (~14% of MCap). RoCE is seen ~19% mark by FY24E

Alternate Stock Idea: Apart from GIL, in our auto coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,550

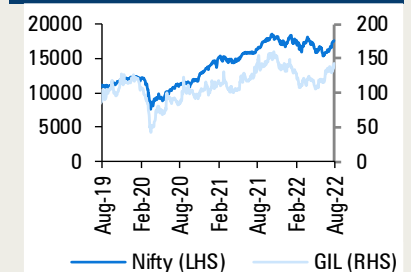
Particulars

Particulars	₹ crore
Market capitalisation	2,040.1
Total Debt (FY22)	11.1
Cash & Investment (FY22)	279.1
EV (₹ crore)	1,772.1
52 week H/L (₹)	168 / 102
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	55.0	55.0	55.0	55.0
FII	1.0	1.2	1.3	1.4
DII	7.1	7.3	9.2	9.3
Other	36.9	36.5	34.5	34.4

Price Chart



Recent event & key risks

- Posted robust Q1FY23 results
- **Key Risk:** (i) Any moderation in margin trajectory amid high competitive intensity in market place, (ii) Lower than expected pickup in sales volumes at OEMs

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,076.5	1,870.0	1,694.8	2,332.0	9.0%	2,821.5	3,183.6	16.8%
EBITDA	177.9	137.8	102.5	146.0	0.3%	197.5	238.8	27.9%
EBITDA Margins (%)	8.6	7.4	6.0	6.3		7.0	7.5	
Net Profit	95.0	84.7	60.3	89.5	1.9%	130.2	161.8	34.5%
EPS (₹)	6.6	5.9	4.2	6.2		9.1	11.3	
P/E	21.5	24.1	33.8	22.8		15.7	12.6	
RoNW (%)	16.1	13.0	8.7	11.7		15.0	16.3	
RoCE (%)	22.0	14.0	8.3	13.2		17.1	18.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Starts on positive note, posts robust Q1FY23 result

- GIL posted a robust performance for Q1FY23 and was in excess of our annual estimates both on the topline and margin front
- Margin performance was the real positive surprise and was surpassing our annual estimates of 6.5%. It was due to savings being realised on RM costs as well as other expenses, which were down 140 bps & 10 bps QoQ respectively.
- GIL has cash rich B/S, EV immune product profile with suspension solutions already being supplied to new auto OEM's like Ola Electric, Ampere, Ather, Okinawa.

Q1FY23 Earnings Conference Call highlights

- Q1FY23 remained strong in both demand & performance wise while FY23 is expected to be strong riding on strong order book and positive festive sentiments. Utilisation levels remained high amid new launches
- The 2-W industry continued to face headwinds of commodity prices and is witnessing muted demand. Also, many dealers do not expect sales to cross pre-Covid levels, especially in the commuter segment
- In the 2-W space, the company has market share of ~30% in ICE whereas the same for EV is ~60% vs. ~51% in Q4FY22. Also, GIL has obtained Lol from market leader Hero Electric with production to start from October, 2022 and is a single source supplier to Ola S1 Pro & TVS i-Qube
- In the PV space, the company maintains its market share of 23% and intends to increase it further through spreading its presence among new launches like Maruti Suzuki Brezza, Grand Vitara, Mahindra Thar, XUV 700. However, Scorpio N is with competitor
- GIL witnessed highest ever aftermarket sales and is expanding its reach in tier 2 cities with ~20,000+ retailer network
- Exports continued to be effected due to muted operations at Volkswagen-Russia (~₹ 25-30 crore annual exports) amid geopolitical crisis in Europe
- GIL also operationalised its Tech Centre at Chakan, Pune in Q1FY23 & is a world-class product engineering & test facility for automotive shock absorber products in passenger cars, CVs and railway coaches
- In the aftermarket business, brake pads are gaining traction and is contributing to aftermarket growth
- The management remains committed to attaining double digit EBITDA margin through its CORE 90 programme

Capex during Q1FY23 was ₹ 21.3 crore with net cash position of ₹ 262 crore

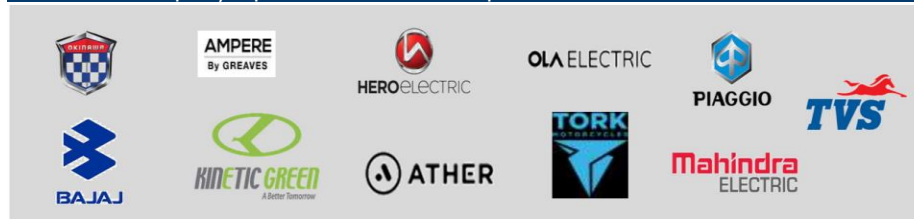
The company is not currently entertaining slow speed EV as this particular segment is using Chinese imported kits

The management guided about margins in EV shock absorber to be better than regular ICE variants

GIL continues to actively scan for opportunities of acquisition for inorganic growth

Under PLI scheme the company is still evaluation its options with sensors as of now looking promising as a prospect

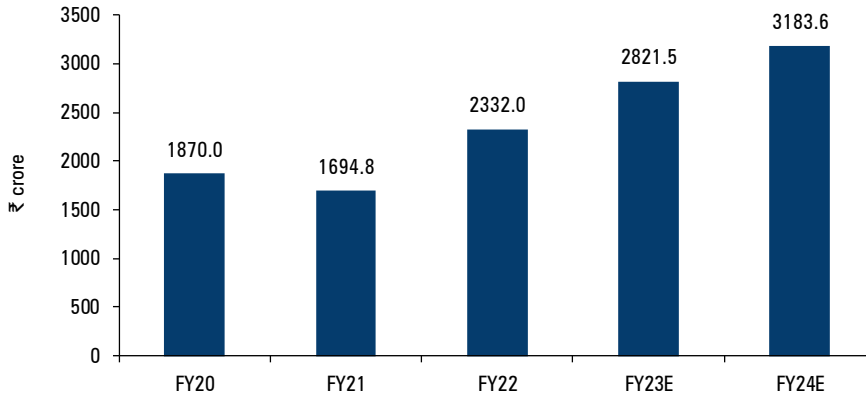
Exhibit 1: Company's presence in electric space



Source: Company, ICICI Direct Research

Financial story in charts

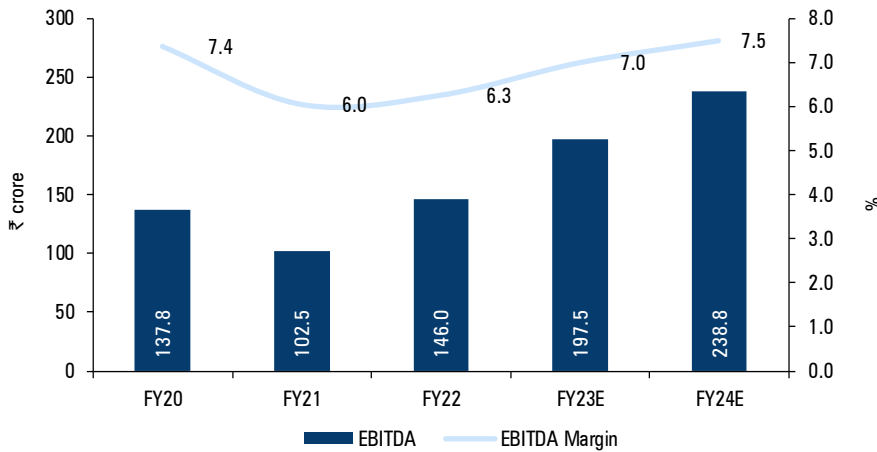
Exhibit 2: Trend in topline



GIL is seen posting 16.8% net sales CAGR over FY22-24E

Source: Company, ICICI Direct Research

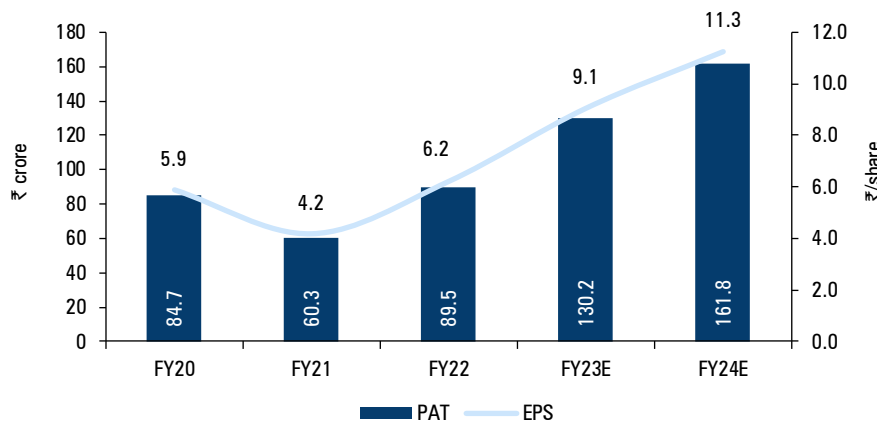
Exhibit 3: Trend in margins



Margins are seen returning to 7.5% levels by FY24E on cost reduction and localisation efforts, mix improvements and operating leverage gains

Source: Company, ICICI Direct Research

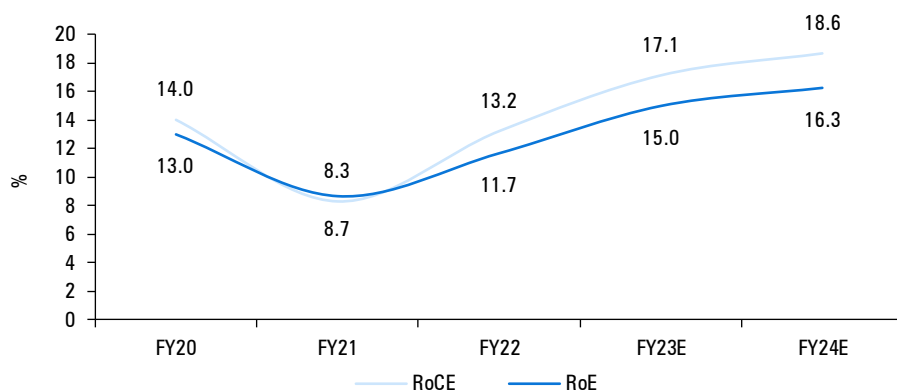
Exhibit 4: Trend in profitability



We expect PAT to grow to ₹ 161.8 crore by FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in return ratios



We expect GIL to clock 18.6% RoCE in FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,077	13.3	6.6	0.9	21.5	11.0	16.1	22.0
FY20	1,870	(9.9)	5.9	(10.8)	24.1	13.9	13.0	14.0
FY21	1,695	(9.4)	4.2	(28.9)	33.8	17.4	8.7	8.3
FY22	2,332	37.6	6.2	48.5	22.8	12.1	11.7	13.2
FY23E	2,821	21.0	9.1	45.5	15.7	8.9	15.0	17.1
FY24E	3,184	12.8	11.3	24.2	12.6	7.0	16.3	18.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	1694.8	2332.0	2821.5	3183.6
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,694.8	2,332.0	2,821.5	3,183.6
Growth (%)	-9.4	37.6	21.0	12.8
Raw Material Expenses	1,265.3	1,786.3	2,158.4	2,419.5
Employee Expenses	147.4	159.7	183.4	206.9
Other Operating Expense	179.6	240.0	282.1	318.4
Total Operating Expenditure	1,592.3	2,186.0	2,624.0	2,944.8
EBITDA	102.5	146.0	197.5	238.8
Growth (%)	-25.6	42.4	35.3	20.9
Depreciation	42.4	41.4	44.9	49.2
Interest	6.5	4.3	3.9	3.5
Other Income	24.3	26.2	25.4	30.2
PBT	77.9	126.4	174.1	216.3
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	17.6	36.9	43.9	54.5
PAT	60.3	89.5	130.2	161.8
Growth (%)	-28.9	48.5	45.5	24.2
EPS (₹)	4.2	6.2	9.1	11.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	60.3	89.5	130.2	161.8
Add: Depreciation	42.4	41.4	44.9	49.2
(Inc)/dec in Current Assets	-83.7	-118.9	-110.9	-94.9
Inc/(dec) in CL and Provisions	170.1	90.5	93.2	83.9
Others	9.8	3.0	3.9	3.5
CF from operating activities	198.8	105.5	161.3	203.5
(Inc)/dec in Investments	67.3	-69.6	8.0	-77.0
(Inc)/dec in Fixed Assets	-54.6	-66.7	-120.0	-60.0
Others	2.5	-1.6	0.0	0.0
CF from investing activities	15.2	-138.0	-112.0	-137.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	5.1	-1.8	-1.0	-1.0
Dividend paid & dividend tax	-19.5	-26.6	-32.6	-39.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-2.8	3.3	0.0	0.0
CF from financing activities	-17.2	-25.1	-33.6	-40.4
Net Cash flow	196.8	-57.6	15.7	26.1
Opening Cash	56.8	253.6	196.0	211.7
Closing Cash	253.6	196.0	211.7	237.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	14.4	14.4	14.4	14.4
Reserve and Surplus	681.9	752.4	853.9	979.8
Total Shareholders funds	696.3	766.8	868.3	994.1
Total Debt	12.9	11.1	10.1	9.1
Deferred Tax Liability	10.5	14.5	14.5	14.5
Minority Interest / Others	5.6	0.0	0.0	0.0
Total Liabilities	725.3	792.3	892.8	1,017.7
Assets				
Gross Block	815.3	889.4	999.7	1,069.7
Less: Acc Depreciation	462.6	504.0	548.8	598.0
Net Block	352.7	385.4	450.9	471.8
Capital WIP	27.7	20.3	30.0	20.0
Total Fixed Assets	380.4	405.8	480.9	491.8
Investments	25.0	94.6	86.6	163.6
Inventory	196.5	210.0	231.9	261.7
Debtors	279.3	382.4	463.8	523.3
Loans and Advances	21.4	29.2	35.3	39.8
Other Current Assets	12.2	6.7	8.1	9.1
Cash	253.6	196.0	211.7	237.8
Total Current Assets	763.0	824.2	950.8	1,071.7
Current Liabilities	442.8	530.3	618.4	697.8
Provisions	27.4	30.5	35.5	40.1
Current Liabilities & Prov	470.2	560.7	654.0	737.9
Net Current Assets	292.8	263.5	296.8	333.9
Others Assets	27.2	28.6	28.6	28.6
Application of Funds	725.3	792.3	892.8	1,017.7

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	4.2	6.2	9.1	11.3
Cash EPS	7.1	9.1	12.2	14.7
BV	48.5	53.4	60.4	69.2
DPS	0.9	1.6	2.0	2.5
Cash Per Share (Incl Invst)	19.4	20.2	20.8	27.9
Operating Ratios (%)				
EBITDA Margin	6.0	6.3	7.0	7.5
PAT Margin	3.6	3.8	4.6	5.1
Inventory days	42.3	32.9	30.0	30.0
Debtor days	60.2	59.9	60.0	60.0
Creditor days	95.4	83.0	80.0	80.0
Return Ratios (%)				
RoE	8.7	11.7	15.0	16.3
RoCE	8.3	13.2	17.1	18.6
RoIC	14.0	21.2	26.4	31.0
Valuation Ratios (x)				
P/E	33.8	22.8	15.7	12.6
EV / EBITDA	17.4	12.1	8.9	7.0
EV / Net Sales	1.1	0.8	0.6	0.5
Market Cap / Sales	1.2	0.9	0.7	0.6
Price to Book Value	2.9	2.7	2.3	2.1
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.1	1.1	1.1
Quick Ratio	0.7	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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