Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Gabriel India Ltd

Gearing up for EV

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ↔	CMP: **Rs. 142**
	Price Target: **Rs. 169** ↑

↑ 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. 2,040 cr
52-week high/low:	Rs. 168/102
NSE volume: (No of shares)	4.12 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	1.4
DII	9.3
Others	34.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.9	25.4	4.5	1.3
Relative to Sensex	-7.7	18.2	2.5	-7.2

Sharekhan Research, Bloomberg

Summary

- We maintain Buy on Gabriel India Limited's (Gabriel's) with a revised PT of Rs.169, factoring in robust automotive demand, its preparedness to benefit from the adoption of EVs in India and comfortable valuations. Stock trade at P/E multiple of 11.7x and EV/EBITDA multiple of 6.6x its FY24E estimates.
- Q1FY23 results were above expectations, led by 120bps higher than expected expansion in EBITDA margin at 7.1%.
- 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 earnings are set to report a 39.3% CAGR over FY22E-FY24E, driven by a 17% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.5% in FY24E from 6.3% in FY22.

Gabriel India's (Gabriel's) Q1FY23 results were above expectations, led by 120bps higher than expected expansion in EBITDA margin at 7.1%, leading to a 20.8% beat in EBITDA and a 7.6% beat in net profits. Net revenue for the Q1FY23 was up 5.3% q-o-q to Rs721 crore, led by 14.9% growth in the commercial vehicle (CV) segment, 5.3% growth in 2W/3W & passenger vehicle (PV) segments. EBITDA margin saw 120bps higher than expected expansion at 7.1%, an improvement of 150bps q-o-q, driven by favorable product mix, price hikes, and positive operating leverage. As a result, EBITDA and PAT improved 34.8% q-o-q and 22.3% q-o-q to Rs50.9 crore and Rs32.9 crore respectively. Management is optimistic about the growth outlook, led by increasing electric vehicle adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment. Further, the management expects EBITDA margins to gradually to revert to double-digits, aided by softening commodity prices and improving product mix. 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 is focusing on the 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 39.3% CAGR over FY22E-FY24E, driven by a 17% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.3% in FY24E from 6.3% in FY22. We retain Buy on the stock, with a revised price target (PT) of Rs. 169.

Key positives

- Q1FY23 results were above expectations, led by 120bps higher than expected expansion in EBITDA margin at 7.1%, leading to a 20.8% beat in EBITDA and a 7.6% beat in net profits. CV and replacement markets continue to witness robust growth during Q1.
- The company's market share increased its market share in 2W/3W and CV segments to 30% and 89% respectively during Q1FY23, while maintaining market share in PV at 23% during the quarter.
- In the e-2W, the company supplies suspension products to 60% of demand, supplying to five of top six e-2W OEMs.

Key negatives

- Exports declined by 20.3% y-o-y to Rs21.6 crore in Q1FY23, impacted by geo-political tension.

Management Commentary

- Management is optimistic about the growth outlook, led by increasing electric vehicle adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment.
- Further, the management expects EBITDA margins to gradually revert to double-digits, aided by softening commodity prices and improving product mix.

Revision in estimates – We have revised our earnings estimates upwards by 7.5% and 11.3% for FY23E and FY24E to Rs133 crore and Rs174 crore respectively, to reflect higher volumes and better EBITDA margins. we expect Gabriel's net earnings to grow 39.3% CAGR over FY22E-FY24E, driven by a 17% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.3% in FY24E from 6.3% in FY22.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 169: 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 normalization 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 localization, 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 trades below its historical average at a P/E multiple of 11.7x and EV/EBITDA multiple of 6.6x its FY24E estimates. We maintain our Buy rating on Gabriel with a revised PT of Rs. 169, aided by robust automotive demand, its preparedness to benefit from the adoption of EVs in India, and comfortable 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	2,730	3,193
Growth (%)	(9.1)	37.3	17.0	17.0
EBIDTA	108	148	213	271
OPM (%)	6.3	6.3	7.8	8.5
Net Profit	54	90	133	174
Growth (%)	(35.7)	64.4	49.1	30.1
EPS	3.8	6.2	9.3	12.1
P/E	37.5	22.8	15.3	11.7
P/BV	2.9	2.7	2.4	2.1
EV/EBIDTA	17.6	12.9	8.8	6.6
ROE (%)	7.9	11.8	15.7	17.8
ROCE (%)	11.8	16.8	22.0	25.0

Source: Company; Sharekhan estimates

Key Conference Call Highlights

Beat market estimates in Q1: Gabriel India's (Gabriel's) Q1FY23 results were above expectations, led by 120bps higher than expected expansion in EBITDA margin at 7.1%, leading to a 20.8% beat in EBITDA and a 7.6% beat in net profits. Net revenue for the Q1FY23 was up 5.3% q-o-q to Rs721 crore, led by 14.9% growth in the commercial vehicle (CV) segment, 5.3% growth in 2W/3W & passenger vehicle (PV) segments. EBITDA margin saw 120bps higher than expected expansion at 7.1%, an improvement of 150bps q-o-q, driven by favorable product mix, price hikes, and positive operating leverage. As a result, EBITDA and PAT improved 34.8% q-o-q and 22.3% q-o-q to Rs50.9 crore and Rs32.9 crore respectively. The company's market share increased its market share in 2W/3W and CV segments to 30% and 89% respectively during Q1FY23, while maintaining market share in PV at 23% during the quarter. In the e-2W, the company supplies suspension products to 60% of demand, supplying to five of the top six e-2W OEMs. Exports declined by 20.3% y-o-y to Rs21.6 crore in Q1FY23, impacted by geo-political tension.

Management gave a cautiously positive outlook: Management is optimistic about the growth outlook, led by increasing electric vehicle adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment. Further, the management expects the company expects to grow faster than the industry, led by increased business from existing clients, new orders and an increase in geographical penetration. EBITDA margins gradually revert to double-digits, aided by softening commodity prices and improving product mix.

Ramping up capabilities for the EV business: 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 is developing products for EV OEMs such as OLA Electric, Okinawa, Ather Energy, e-2Ws and Bajaj Auto, M&M, and Tube Investment of India among e-3W OEMs.

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 Rs21.3 crore in Q1FY23 and has increased its capex at Rs100-120 crore in FY23E.

Revision in Estimates: We have revised our earnings estimates upwards by 7.5% and 11.3% for FY23E and FY24E to Rs133 crore and Rs174 crore respectively, to reflect higher volumes and better EBITDA margins. we expect Gabriel's net earnings to grow 39.3% CAGR over FY22E-FY24E, driven by a 17% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.3% in FY24E from 6.3% in FY22.

Change in Estimates Rs cr

Particulars	Revised		Earlier		% Change	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	2,730	3,193	2,694	3,115	1.3	2.5
EBITDA	213	271	199	246	6.8	10.3
EBITDA margin (%)	7.8	8.5	7.4	7.9	40 bps	60 bps
PAT	133	174	124	156	7.5	11.3
EPS (Rs)	9.3	12.1	8.6	10.9	7.5	11.3

Source: Company, Sharekhan Research

Results (Standalone) | **Rs cr**

Particulars	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net Sales	720.9	453.6	58.9	684.3	5.3
Total operating expenses	670.1	428.6	56.3	646.6	3.6
EBIDTA	50.9	25.0	103.5	37.7	34.8
Depreciation	11.2	9.9	12.3	10.7	4.5
Interest	1.4	2.0	(30.0)	0.2	714.9
Other Income	6.1	2.7	127.9	10.8	(43.3)
PBT	44.5	15.8	181.4	37.7	17.9
Tax	11.6	3.8	203.7	10.8	7.1
Reported net profit	32.9	12.0	174.3	26.9	22.3
Adjusted net profit	32.9	12.0	174.3	26.9	22.3
Adjusted EPS	2.3	0.8	174.3	1.9	22.3

Source: Company, Sharekhan Research

Key ratios (Standalone)

Particulars	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross margin (%)	23.5	25.2	(170)	22.1	140
EBIDTA margin (%)	7.1	5.5	150	5.5	150
EBIT margin (%)	5.5	3.3	220	4.0	160
Net profit margin (%)	4.6	2.6	190	3.9	60
Effective tax rate (%)	26.0	24.1	190	28.6	(260)

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 normalization of economic activities, led by the pent-up demand from rural, semi-urban, and urban demand along with a favorable 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.

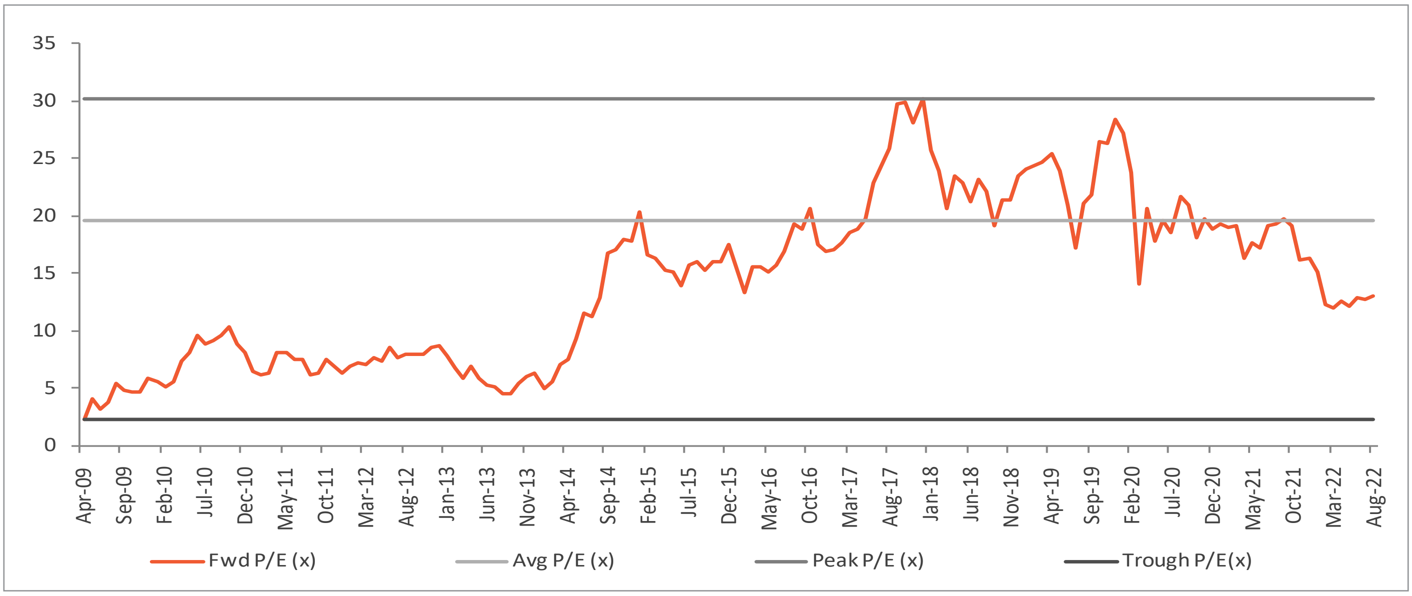
■ Company outlook - Beneficiary of leadership position, client relationships, technological edge, and strong earnings growth

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 by 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 a revised PT of Rs. 169

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 normalization 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 localization, 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 trades below its historical average at a P/E multiple of 11.7x and EV/EBITDA multiple of 6.6x its FY24E estimates. We maintain our Buy rating on Gabriel with a revised PT of Rs. 169, aided by robust automotive demand, its preparedness to benefit from the adoption of EVs in India, and comfortable valuations.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Gabriel India	142	22.8	15.3	11.7	12.9	8.8	6.6	16.8	22.0	25.0
GNA Axles	638	15.4	11.9	9.8	8.4	6.8	5.5	17.4	19.9	20.7
Lumax Auto Technologies	230	18.6	14.6	12.7	9.9	8.0	7.4	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

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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