Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

# Gabriel India Ltd

## Good performance; Positive outlook ahead

| Automobiles | Sharekhan code: GABRIEL |
|---|---|
| Reco/View: Buy ↔ | CMP: Rs. 177 / Price Target: Rs. 217 ↑ |

↑ 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. 2,542 cr |
| 52-week high/low: | Rs. 185 / 102 |
| NSE volume: (No of shares) | 4.69 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 | 15.6 | 23.9 | 65.1 | 14.4 |
| Relative to Sensex | 7.3 | 19.4 | 51.1 | 11.7 |

*Sharekhan Research, Bloomberg*

### Summary

- We maintain Buy on Gabriel India Limited (Gabriel) with a revised PT of Rs. 217, factoring in robust automotive demand, its preparedness to benefit from the adoption of EVs in India, and rolling forward target multiple to December 2024E EPS.
- Q2FY2023 results were broadly in-line with estimates. Revenue, EBITDA, and PAT grew by 36.1% y-o-y, 37.4% y-o-y, and 46.7% y-o-y, respectively.
- Faster adoption of EVs in India would be the key growth driver for Gabriel, led by its increasing market share with its EV clients and first-mover advantage of developing EV suspension products that have light weight, noise reduction, and enhanced automation properties.
- Gabriel's earnings are set to report a 42.8% CAGR over FY2022E-FY2024E, driven by an 18.3% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.5% in FY2024E from 6.3% in FY2022. The stock trades at attractive valuations of 13.9x P/E multiple and 8.3x EV/EBITDA multiple its FY2024E estimates.

**Gabriel India Limited's (Gabriel's) Q2FY2023 results were broadly in-line with estimates. Revenue, EBITDA, and PAT grew by 36.1% y-o-y, 37.4% y-o-y, and 46.7% y-o-y, respectively. Net revenue rose by 36.1% y-o-y and 11.4% q-o-q to Rs. 803 crore, driven by strong PV, CV, and aftermarket sales. EBITDA margin expanded by 30 bps q-o-q to 7.4% in Q2FY2023, led by softening commodity prices, improved product mix, and cost reduction. As a result, EBITDA and PAT increased by 37.4% y-o-y and 46.7% y-o-y to Rs. 59 crore and Rs. 37 crore, respectively. We continue to maintain our positive view on the company, as we expect the company to continue to outpace the industry's growth, given its dominant position in suspension components, new launches in automotive segments, and increased electric vehicle (EV) adoption in India. Gabriel is benefitting from its first-mover advantage in the EV segment, which has helped it to gain market leadership across the electric 2W and 3W automotive segments. Management is optimistic about the growth outlook, led by increasing EV adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment. Further, management expects EBITDA margin to gradually revert to double digits, aided by softening commodity prices and improving product mix. Based on the company's well-thought and workable strategies and its inherent capabilities, we expect Gabriel's net earnings to post a 42.8% CAGR over FY2022E-FY2024E, driven by an 18.3% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.5% in FY2024E from 6.3% in FY2022. We retain Buy on the stock, with a 12-month price target (PT) of Rs. 217.**

### Key positives

- Gabriel continues to perform strongly with revenue, EBITDA, and PAT growing by 36.1% y-o-y, 37.4% y-o-y, and 46.7% y-o-y, respectively.
- The company's market share increased its market share in 2W/3W to 32% (up 200 bps q-o-q) during Q2FY2023, while maintaining its market share in PV and CV at 23% and 89%, respectively.
- In e-2W, the company supplies suspension products to 66% of demand, supplying to five of the top six e-2W OEMs.
- Exports grew by 15.1% y-o-y to Rs. 25.1 crore in Q2FY2023, despite geopolitical tensions.

### Key negatives

- Gross margin declined by 50 bps q-o-q to 23% due to lag impact of the price increase.

### Management Commentary

- Management is optimistic about the growth outlook, led by increasing EV adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment.
- Further, management expects EBITDA margin to gradually revert to double digits, aided by softening commodity prices and improving product mix.
- The company continues to strengthen its market share through new client and business acquisitions.

### Our Call

**Valuation – Maintain Buy with a revised PT of Rs. 217:** Gabriel is witnessing strong traction from domestic and global OEMs, as automotive demand recovers, driven by strong brand recall and a leadership position in suspension components. The outlook remains positive, driven by 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) is expected to 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, driven by its leadership position and preparedness to benefit from faster EV adoption. The stock is available at attractive valuations of 13.9x P/E multiple and 8.3x EV/EBITDA multiple its FY2024E. We maintain our Buy rating on Gabriel with a revised PT of Rs. 217, led by robust automotive demand, its preparedness to benefit from the adoption of EVs in India, and rolling forward target multiple to December 2024E EPS.

### Key Risks

Pricing pressures from automotive OEM customers can impact profitability.

### Valuation (Standalone) Rs cr

| Particulars | FY21 | FY22 | FY23E | FY24E | FY25E |
|---|---|---|---|---|---|
| Revenues | 1,699.9 | 2,333.7 | 2,775.3 | 3,268.5 | 3,686.1 |
| Growth (%) | -9.1 | 37.3 | 18.9 | 17.8 | 12.8 |
| EBIDTA | 107.6 | 147.7 | 216.5 | 276.2 | 324.4 |
| OPM (%) | 6.3 | 6.3 | 7.8 | 8.5 | 8.8 |
| Net Profit | 54.5 | 89.5 | 140.2 | 182.6 | 216.7 |
| Growth (%) | -35.7 | 64.4 | 56.6 | 30.2 | 18.7 |
| EPS | 3.8 | 6.2 | 9.8 | 12.7 | 15.1 |
| P/E | 46.7 | 28.4 | 18.1 | 13.9 | 11.7 |
| P/BV | 3.7 | 3.4 | 3.0 | 2.6 | 2.2 |
| EV/EBIDTA | 22.3 | 16.3 | 10.9 | 8.3 | 6.8 |
| ROE (%) | 7.9 | 11.8 | 16.4 | 18.5 | 19.0 |
| ROCE (%) | 11.8 | 16.8 | 22.3 | 25.2 | 25.9 |

*Source: Company; Sharekhan estimates*

## Key Conference Call Highlights

- **Broadly in-line performance:** Gabriel's Q2FY2023 results were broadly in-line with estimates. Revenue, EBITDA, and PAT grew by 36.1% y-o-y, 37.4% y-o-y, and 46.7% y-o-y, respectively. Net revenue rose by 36.1% y-o-y and 11.4% q-o-q to Rs. 803 crore, driven by strong PV, CV, and aftermarket sales. Revenue from OEM, replacement, and export segments grew by 42.9% y-o-y, 16.7% y-o-y, and 18.3% y-o-y, respectively. The company's market share increased in 2W/3W to 32% (up 200bps q-o-q) during Q2FY2023, while the company maintained its market share in PV and CV at 23% and 89%, respectively. In e-2W, the company supplies suspension products to 66% of demand, supplying to five of the top six e-2W OEMs. EBITDA margin expanded by 30 bps q-o-q to 7.4% in Q2FY2023, led by softening commodity prices, improved product mix, and cost reductions. As a result, EBITDA and PAT increased by 37.4% y-o-y and 46.7% y-o-y to Rs. 59 crore and Rs. 37 crore, respectively.

- **Management continues to remain positive:** Management is optimistic about the growth outlook, led by increasing EV adoption in 2W, 3W, PV, and bus segments and shifting consumer trends towards the SUV segment. Further, management expects EBITDA margins to gradually revert to double digits, aided by softening commodity prices and improving product mix. The company continues to strengthen its market share through new client and business acquisitions.

- **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, and Ather Energy in e-2Ws and Bajaj Auto, M&M, and Tube Investment of India among e-3W OEMs. Faster adoption of EVs in India would be the key growth driver for Gabriel, led by its increasing market share with its EV clients and first-mover advantage of developing EV suspension products that have lightweight, noise reduction, and enhanced automation properties. Additionally, the company has made improvements in its capex programme and has stepped towards setting up a state-of-the-art technology centre at Chakan. The company's market share in e-2W is currently ~50% for suspension products, which the company expects to maintain in the long run.

- **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 32% market share in 2W and 3W segments, 23% in the PV segment, and an 89% 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 the automotive segment is positive for FY2023E. In the PV segment, the company has a strong order book, which 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.

- **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 on 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 capex of Rs. 66.8 crore in FY2022 and has maintained its capex at Rs. 100 crore-120 crore in FY2023E.

- **Revving up technology:** The company is developing technologies to make lightweight products, reduce noise, and increase usage of electronics to improve the response time of suspensions. Besides this, the company has also introduced advanced damper technology for enhanced user experience. In terms of process innovation, the company has invested in robotics to simplify the manufacturing process and is among the companies having the highest number of robots in the suspension industry, which is going to be beneficial in the long term.

- **Digitalisation:** The company is focussing on digitalisation to stay ahead of the industry's developments, which will continue to strengthen manufacturing capabilities by integrating digitalisation across departments.
- **Localisation:** The company has been focusing on increased local procurement and backward integration, supporting its supply side. The company has doubled its casting capacities to reduce dependency on China and has localised parts procurement from competent suppliers. The company expects to grow faster than the industry, led by growing business from existing clients, new orders, and increased geographical penetration. In terms of margin expectation, the company expects to reach double-digit EBITDA margin in 2-3 years, through cost-reduction measures, increased localisation, and operating leverage.
- **Renewed focus on aftermarket:** Gabriel has a stronghold in the aftermarket segment 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 ~87% of aftermarket sales), which it is leveraging in the aftermarket to launch new products. Gabriel's key strategies include increasing 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.
- **Strong earnings growth:** Gabriel's dominant position in suspension components is expected to remain intact, aided by its strong relationship with OEMs and brand recall in the aftermarket segment. The company's earnings are set to report a 42.8% CAGR over FY2022E-FY2024E, driven by an 18.3% revenue CAGR and a 220-bps expansion in EBITDA margin to 8.5% in FY2024E from 6.3% in FY2022. The stock trades at attractive valuations of 12.9x P/E multiple and 7.6x EV/EBITDA multiple its FY2024E estimates.

**Results (Standalone)** Rs cr

| Particulars | Q2FY23 | Q2FY22 | Y-o-Y % | Q1FY23 | Q-o-Q % |
|---|---|---|---|---|---|
| Net Sales | 802.9 | 589.7 | 36.1 | 720.9 | 11.4 |
| Total operating expenses | 743.8 | 546.7 | 36.0 | 670.1 | 11.0 |
| EBIDTA | 59.1 | 43.0 | 37.4 | 50.9 | 16.2 |
| Depreciation | 11.8 | 9.9 | 19.0 | 11.2 | 5.7 |
| Interest | 1.1 | 1.5 | (28.7) | 1.4 | (23.2) |
| Other Income | 2.9 | 4.4 | (33.6) | 6.1 | (52.1) |
| PBT | 49.2 | 36.1 | 36.5 | 44.5 | 10.7 |
| Tax | 12.7 | 11.2 | 13.5 | 11.6 | 9.4 |
| Reported net profit | 36.6 | 24.9 | 46.7 | 32.9 | 11.1 |
| Adjusted net profit | 36.6 | 24.9 | 46.7 | 32.9 | 11.1 |
| Adjusted EPS | 2.5 | 1.7 | 46.7 | 2.3 | 11.1 |

*Source: Company; Sharekhan Research*

**Key Ratios (Standalone)**

| Particulars | Q2FY23 | Q2FY22 | Y-o-Y (bps) | Q1FY23 | Q-o-Q (bps) |
|---|---|---|---|---|---|
| Gross margin (%) | 23.0 | 24.0 | (100) | 23.5 | (50) |
| EBIDTA margin (%) | 7.4 | 7.3 | 10 | 7.1 | 30 |
| EBIT margin (%) | 5.9 | 5.6 | 30 | 5.5 | 40 |
| Net profit margin (%) | 4.6 | 4.2 | 30 | 4.6 | - |
| Effective tax rate (%) | 25.7 | 30.9 | (520) | 26.0 | (30) |

*Source: Company; Sharekhan Research*

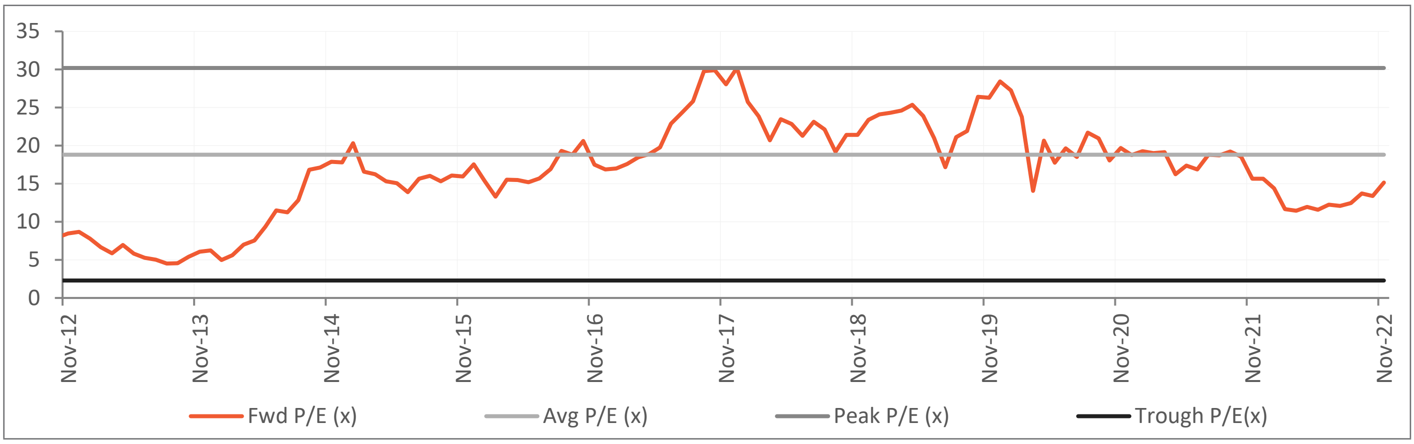
## Outlook and Valuation

■ **Sector Outlook – 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 pent-up demand from rural, semi-urban, and urban along with a favourable macro-outlook. 2W and PV demand is expected to remain strong amid COVID-19, as preference for personal transport and since 2W 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. CV demand is expected to remain robust for the next 2-3 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. 217:** Gabriel is witnessing strong traction from domestic and global OEMs, as automotive demand recovers, driven by strong brand recall and a leadership position in suspension components. The outlook remains positive, driven by 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) is expected to 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, driven by its leadership position and preparedness to benefit from faster EV adoption. The stock is available at attractive valuations of 13.9x P/E multiple and 8.3x EV/EBITDA multiple its FY2024E. We maintain our Buy rating on Gabriel with a revised PT of Rs. 217, led by robust automotive demand, its preparedness to benefit from the adoption of EVs in India, and rolling forward target multiple to December 2024E EPS.

**One-year forward P/E (x) band**




*Source: Company, Sharekhan Research*

**Peer Comparison**

| Particulars | CMP | P/E (x) | | | EV/EBITDA (x) | | | RoCE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Rs/Share | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E | FY22 | FY23E | FY24E |
| Gabriel India | 177 | 28.4 | 18.1 | 13.9 | 16.3 | 10.9 | 8.3 | 16.8 | 22.3 | 25.2 |
| GNA Axles | 671 | 16.2 | 12.2 | 10.1 | 8.8 | 7.0 | 5.7 | 17.4 | 20.3 | 21.0 |
| Lumax Auto Technologies | 248 | 20.1 | 13.7 | 10.1 | 10.7 | 7.7 | 6.2 | 17.4 | 21.4 | 23.8 |

*Source: Company, Sharekhan estimates*

## 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 30% market share in the 2W and 3W segments, 23% in the PV segment, and 89% 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 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 laid down its plans well 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 and 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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