Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Gabriel India Ltd

Eyeing on margin expansion

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ↔	CMP: Rs. 173	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. 2,485 cr
52-week high/low:	Rs. 201 / 104
NSE volume: (No of shares)	4.6 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	2.9
DII	11.1
Others	31.0

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	15.2	11.6	5.7	57.6
Relative to Sensex	11.7	10.8	5.4	43.6

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Gabriel India Limited with an unchanged PT of Rs.217, owing to strong brand equity, market share expansions, focus on profitability and its inorganic growth strategies.
- Management has guided for EBITDA margin expansion in FY24 and aspiring for double digit margin in long term.
- Along with organic growth plans, the company is continuing to look for a suitable inorganic growth opportunity.
- Stock trades at a P/E multiple of 11.5x and EV/EBITDA multiple of 6.7x its FY25E estimates.

Broadly, Gabriel India's (Gabriel's) performance in Q4FY23 was in line as revenue and EBITDA missed our estimates by mere 1.7% and 5.3%, respectively. Adjusted PAT was 5.7% above estimates on account of higher-than-expected other income. Revenues rose by 3.7% q-o-q to Rs 737 crore (against our estimate of Rs 750 crore) led by a 6.2% q-o-q growth and 3.7% q-o-q growth in the OEM segment and exports. The replacement segment reported a 12.3% q-o-q decline in revenue. EBITDA increased by 1.9% q-o-q to Rs 52.4 crore (against estimate of Rs 55 crore). Despite a 50-bps q-o-q contraction in gross margin the EBITDA margin contracted by a mere 10 bps q-o-q to 7.1% (against estimate of 7.4%) due to a 40 bps q-o-q contraction in employee cost as percentage of sales. With this operating performance and higher than expected other income the adjusted PAT came to 5.7% above estimates. Other income increased from Rs 1.8 crore in Q3FY23 to Rs 6.5 crore in Q4FY23 and translated into 15.9% q-o-q growth in APAT to Rs 33.8 crore (against estimate of Rs 32 crore). The company announced a final dividend of Rs. 1.65/ share (along with an interim dividend of Rs 0.9/ share the total dividend for FY23 works out to be Rs 2.55/ share, 28% payout ratio). With its leadership position in the commercial vehicle (CV) space the company has been endeavoring to expand its penetration in PV space also. The rise in market share in PV space is reflected in the improvement in product mix, given that PV segment contributed 23% to its total revenue compared to 21% in FY21. Greater revenue contribution from PV segment is reducing its dependence on two-wheeler segment. Further, Gabriel continues to enhance its penetration in EV space as it now enjoys 80% market share in the electric two-wheeler segment and caters to all leading players in the industry. We maintain a positive view on the company owing to its strong brand equity, market share expansion strategy, focus on profitability and its inorganic growth strategies.

Key positives

- Employee cost as a percentage of sales contracted by 40 bps q-o-qq-o-q and cushioned the contraction in EBITDA margin.
- Other income jumped sharply from Rs. 1.8 crore in Q3Fy23 to Rs 6.5 crore in Q4Fy23 and drove bottom line performance.
- Gabriel's market share in PV segment has expanded from 15% in FY20 to 23% in FY23.

Key negatives

- Gross margins contracted by 50 bps q-o-q to 23.8% and restricted EBITDA margin expansion.
- EBITDA margins contracted by 10 bps q-o-q to 7.1% against the expectation of 7.4%.
- The topline performance has been largely driven by the OEM segment as revenue from replacement segment came down from 13% in Q3FY23 to 11% in Q4Fy23 where the revenue from OEM segment has expanded from 83% in Q3FY23 to 85% in Q4FY23.

Management Commentary

- The company is aiming for an improvement in EBITDA margin in FY24 and aspiring for a double-digit EBITDA margin in the medium to long term.
- Gabriel is enhancing its technological expertise to cater to export market as it is targeting 10% of revenues to come from the export markets in next few years compared to 4% currently.
- The management targets to outperform the domestic vehicle industry growth in FY24.

Our Call

Valuation - Maintain Buy with an unchanged PT of Rs. 217: In Q4FY23, Gabriel reported EBITDA close to estimates and higher than expected bottom line on sharp growth in other income. The management continues to look to outperform the domestic automobile industry led by increase in market share and new customer addition. While commodity price inflation has impacted its margin by around 1% in Fy23 the management is guiding for an EBITDA margin expansion in FY24. After collaboration with Inalfa for manufacturing of sunroof systems in India, the management is optimistic on its diversification strategy and still open for any suitable inorganic growth opportunity. In addition to its existing product portfolio the company is entering into fork business for E-bikes and assumes a strong growth opportunity in E bike space in export markets. The market share expansion in PV space is helping the company to improve its product mix and reducing dependence on two wheeler segment. We maintain our Buy on Gabriel with an unchanged price target of Rs 217 owing to its strong brand equity, market share expansion strategy, focus on profitability and its inorganic growth strategies.

Key Risks

Pricing pressures from automotive OEM customers can impact profitability. Further the sharp revival in two wheeler industry is key for its topline performance.

Valuation (Standalone) Rs cr

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Revenues	1,695	2,332	2,972	3,519	3,970
Growth (%)	-	37.6	27.4	18.4	12.8
EBIDTA	103	146	214	289	337
OPM (%)	6.0	6.3	7.2	8.2	8.5
Net Profit	60	90	132	184	216
Growth (%)	-	48.6	47.8	38.7	17.9
EPS	4.2	6.2	9.2	12.8	15.1
P/E	-	27.8	18.8	13.5	11.5
P/BV	3.6	3.2	2.9	2.4	2.1
EV/EBIDTA	23.2	16.1	10.8	8.1	6.7
ROE (%)	8.9	12.2	16.2	19.5	19.6
ROCE (%)	9.6	12.7	16.6	19.8	19.9

Source: Company; Sharekhan estimates

- **PVs to contribute greatly to revenue mix:** Over the period the revenue mix has been improving due to the increase in wallet share with the existing customers in PV segment and rise in PV volumes. The revenue contribution from the PV segment has been consistently rising and reached 27% in Q4Fy23 compared to 22% in Q4FY22. On the other hand, the revenue contribution from the two-wheeler segment has come down from 65% in Q4FY22 to 59% in Q4FY23.
- **Channel-wise revenue mix in Q4FY23:** OEM: 85%, Replacement: 11%, export: 4%
- **Capex:** Capex incurred in Q4FY23 at Rs 36.8 crore and in FY23 at Rs 106.5 crore. The company has scheduled a capex of Rs 150 crore for FY24 largely on product development, capacity enhancement, technology development and backward integration.
- **Exports:** Revenue contribution from exports has increased from 3% in Q4FY22 to 4% in Q4FY23 and the management is aspiring for a 10% kind of revenue contribution from exports in long term. The company has been consistently making efforts and enhancing its technological capabilities to reduce the technical gap required to play in export markets. In FY23, OEM and aftermarket constituted 69% and 31% to its export revenue.
- **Leading position in electric two-wheeler space:** The company enjoys an 80% market share in domestic electric 2&3 wheeler segment and aiming to maintain its leadership in electric two-wheeler segment through continuous product innovation. The management do not foresee a significant impact of the reduction in FAME subsidy on the electric two-wheeler industry as most of the leading players have been building up business plan which can run without the help of subsidy.
- **Strong market share:** Gabriel has a dominant position in CV space as it enjoys almost 85% mkt share in CV space. Further it has been gaining market share in electric two-wheeler space due to early mover advantage and hence Gabriel enjoys 32% market share in overall two-wheeler space. With continuous addition of new programs Gabriel's market share in PV segment has expanded from 15% in FY20 to 23% in FY23.

Outlook:

- Gabriel continues to aim to outperform the domestic automobile industry via increasing penetration in the two-wheeler and PV segment. The company is aiming to maintain its high market share in the electric two-wheeler segment and making efforts to expand its market share in the electric PV segment.
- While it has entered in a collaboration with Inalfa for manufacturing of sunroof systems for the domestic OEMs, it has been continuously looking for a suitable inorganic growth opportunity.
- Gabriel's EBITDA margin was impacted by ~1% point in FY23 due to commodity inflation the management assumes an improvement in its EBITDA margin in FY24 and aspiring for a double-digit EBITDA margin in medium to long term.

Results (Standalone) Rs cr

Particulars	Q4FY23	Q4FY22	YoY %	Q3FY23	QoQ %
Net Sales	737.0	684.3	7.7	711.0	3.7
Total operating expenses	684.6	646.6	5.9	659.6	3.8
EBIDTA	52.4	37.7	38.8	51.4	1.9
Depreciation	13.0	10.7	21.5	12.7	2.3
Interest	0.8	0.2	405.4	1.3	(35.5)
Other Income	6.5	10.8	(40.3)	1.8	250.3
PBT	45.0	37.7	19.3	39.2	14.8
Tax	11.2	10.8	4.2	10.1	11.4
Reported net profit	33.8	26.9	25.4	29.1	15.9
Adjusted net profit	33.8	26.9	25.4	29.1	15.9
Adjusted EPS	2.4	1.9	25.4	2.0	15.9

Source: Company, Sharekhan Research

Key Ratios (Standalone)

Particulars	Q4FY23	Q4FY22	YoY (bps)	Q3FY23	QoQ (bps)
Gross margin (%)	23.8	22.1	180	24.4	(50)
EBIDTA margin (%)	7.1	5.5	160	7.2	(10)
Net profit margin (%)	4.6	3.9	60	4.1	50
Effective tax rate (%)	25.0	28.6	(360)	25.7	(70)

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Structural demand in place

We remain optimistic on the automobile sector driven by pent-up demand across the segment. While PV and CV segments are performing the two-wheeler sector is relatively laggard. We expect sequential improvement in M&HCV sales to continue, driven by rising e-Commerce, agriculture, infrastructure, and mining activities. We expect M&HCVs to outpace other automobile segments over the next few years, followed by growth in the passenger vehicles (PVs), two-wheeler, and tractor segments. Moreover, exports provide a considerable growth potential, given India's cost-effective manufacturing, being geographically closer to key markets of the Middle East and Europe, and being the second-largest producer of crucial raw material, steel.

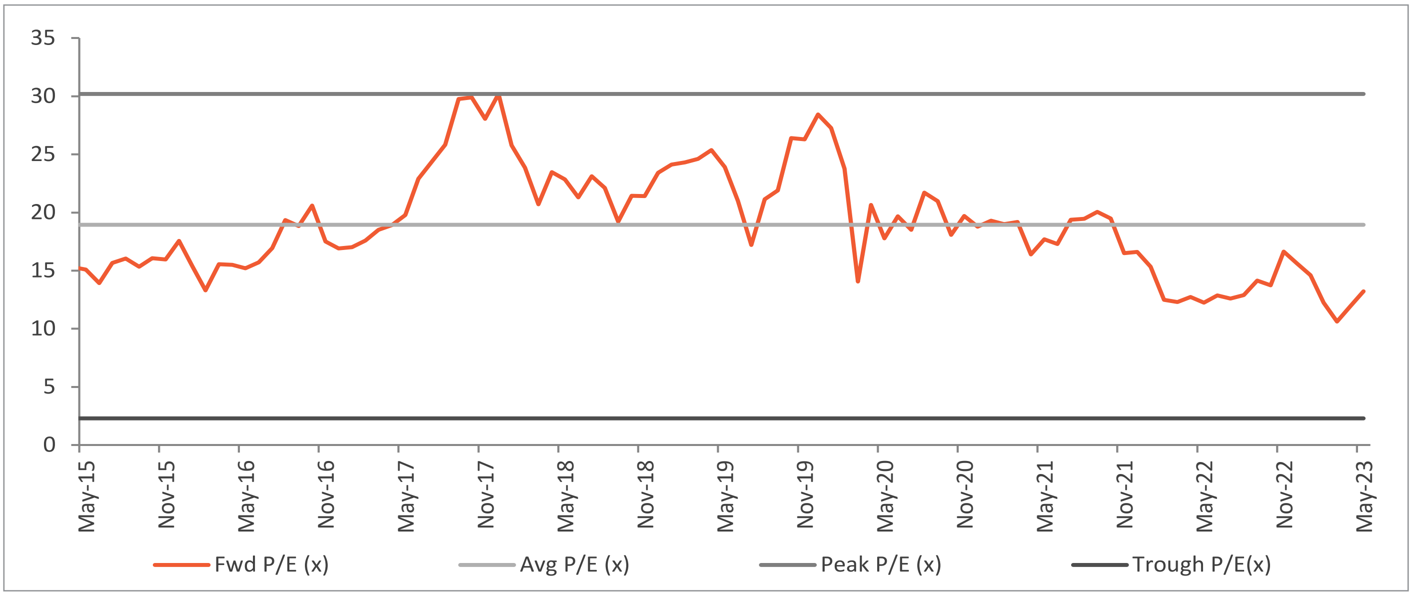
■ Company outlook - Beneficiary of leadership position

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 been working on product innovations to maintain its leadership position in the domestic market and aiming to expand in the export 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. 217

In Q4FY23, Gabriel reported EBITDA close to estimates and higher than expected bottom line on sharp growth in other income. The management continues to look to outperform the domestic automobile industry led by increase in market share and new customer addition. While commodity price inflation has impacted its margin by around 1% in Fy23 the management is guiding for an EBITDA margin expansion in FY24. After collaboration with Inalfa for manufacturing of sunroof systems in India, the management is optimistic on its diversification strategy and still open for any suitable inorganic growth opportunity. In addition to its existing product portfolio the company is entering into fork business for E-bikes and assumes a strong growth opportunity in E bike space in export markets. The market share expansion in PV space is helping the company to improve its product mix and reducing dependence on two wheeler segment. We maintain our Buy on Gabriel with an unchanged price target of Rs 217 owing to its strong brand equity, market share expansion strategy, focus on profitability and its inorganic growth strategies.

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	173	27.8	18.8	13.5	16.1	10.8	8.1	12.7	16.6	19.8
Lumax Auto Technologies	321	30.0	21.9	18.2	14.0	10.6	9.7	4.2	15.6	16.0

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 32% market share in the 2W and 3W segments, 23% in the PV segment, and 85% market share in the CV segment. Gabriel has a stronghold in the aftermarket market. Moreover, the company is well positioned to benefit from the government's push towards fast adoption of EVs. Gabriel has already developed products for leading electric two-wheeler players. 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). 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

Name	Designation
Ms Anjali Singh	Executive Chairperson
Mr Manoj Kolhatkar	Managing Director
Mr Rishi Luharuka	Chief Financial Officer
Mr. Rishi Luharuka	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Asia Investments Pvt Ltd	52.64
2	HDFC Asset Management Co Ltd	9.25
3	Anand Deep C	1.49
4	ICICI Lombard General Insuarance Co Ltd	1.38
5	Dimensional Fund Advisors LP	0.5
6	Anand Anjali	0.45
7	Singh Anjali Anand	0.45
8	Anand Kiran D	0.42
9	LIC Mutual Fund Asset Management Co Ltd	0.27
10	State Street Corp	0.06

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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