Gabriel India (GABIND)

ICICI direct Research

CMP: ₹ 200 | Target: ₹ 260 (30%) | Target Period: 12 months | BUY

July 20, 2023

EV agnostic product profile & rising share of PV segment - structural positives, load up for shock proof ride…

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.

- FY23 revenue mix – ~63% 2-W/3-W, ~23% PV, ~12% CV & railways
- FY23 market share – 32% in 2-W/3-W, 23% in PV, 89% in CV & railways
- FY23 Channel mix – 84% OEM; 12% Replacement market; 4% Exports

Key Investment thesis:

- **Increasing prominence in PV-SUV space, structurally positive:** Gabriel India has been a prominent shock absorber player domestically and has been 2-W/3-W heavy with this segment constituting 67% of sales in FY21 with PV constituting 21% of sales. In the recent past however, GIL, has gained traction in the PV space with this segment now constituting ~23% of its sales with intent to raise it to ~30% over next few years. Interestingly, within PV space the company realizes ~64% of sales from the SUV sub-segment which is witnessing healthy demand traction with its domestic market share in SUV domain pegged at ~35%. GIL is presence with all leading OEMs with prominent nameplates being Mahindra Thar, XUV 700, Maruti New Brezza, Grand Vitara among others. Increasing share of PV-SUV space in GIL's overall sales pie is structurally positive, given the underpenetrated nature of PV category domestically thereby providing growth longevity. EV agnostic product profile and vision to be among the top 5 shock absorber players globally by 2025 are other structure positives providing long term comfort.
- **Healthy financials; trades at inexpensive valuations:** Capital efficiency and healthy balance sheet has been at the key USP at Gabriel thereby providing good margin of safety. GIL's balance sheet has a net cash surplus of ~₹300 crore as of FY23 and on consistent basis (ex-Covid period) being clocking healthy double digit (~15%) return ratios. Even on the cash flow front, GIL has been generating healthy CFO's. Going forward, we expect Sales/PAT at GIL to grow at a CAGR of 10%/19% over FY23-25E with RoCE seen at ~20% by FY25E. At the CMP, it trades at inexpensive valuation of ~15x PE on FY25

Rating and Target price

- We assign **BUY** rating on Gabriel India amidst EV agnostic product profile, gaining prominence in PV-SUV space, foray into premium segment offering (i.e., sunroof systems); leadership position in E-2W/3W space (~≥ 80% market share in high-speed scooters), healthy RoCE profile & debt free B/S.
- We assign a **target price of ₹260 for GIL** valuing it at 20x P/E on FY25E EPS
- This is our conviction idea in the small cap auto ancillary space

GABRIEL

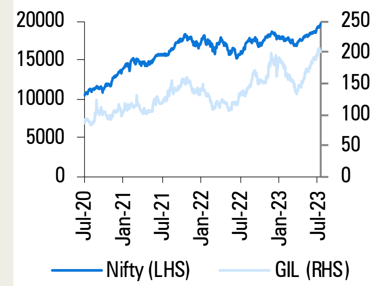
Particulars

Particulars	₹ crore
Market capitalisation	2,873.4
Total Debt (FY23P)	9.4
Cash & Investment (FY23P)	304.5
EV (₹ crore)	2,578.3
52 week H/L (₹)	209 / 128
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

Shareholding pattern

	Sep-22	Dec-22	Mar-23	Jun-23
Promote	55.0	55.0	55.0	55.0
FII	2.6	2.6	2.9	2.7
DII	11.0	11.2	11.1	11.0
Other	31.4	31.2	31.0	31.3

Price Chart



Recent event & key risks

- Conviction pick in ancillary space
- **Key Risk:** (i) lower than built in sales and PAT growth over FY23-25E (ii) any inorganic acquisition at stretched valuation to meet its 2025 ambition (to be amid top 5 players in shock absorber space)

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Conviction Idea

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	2,076.5	1,870.0	1,694.8	2,332.0	2,971.7	10.1%	3,272.8	3,601.9	10.1%
EBITDA	177.9	137.8	102.5	146.0	213.7	4.5%	248.7	288.2	16.1%
EBITDA Margins (%)	8.6	7.4	6.0	6.3	7.2		7.6	8.0	
Net Profit	95.0	84.7	60.3	89.5	132.3	7.0%	156.2	187.0	18.9%
EPS (₹)	6.6	5.9	4.2	6.2	9.2		10.9	13.0	
P/E	30.2	33.9	47.7	32.1	21.7		18.4	15.4	
RoNW (%)	16.1	13.0	8.7	11.7	15.2		15.9	16.7	
RoCE (%)	22.0	14.0	8.3	13.2	18.4		19.4	20.1	

Source: Company, ICICI Direct Research

Company Background

Gabriel India headquartered at Pune was incorporated in 1961 and is part of prestigious ANAND Group. It is a prominent player in the shock absorber/ride control domain and counts all leading OEM's domestically as its clients. It has 7 strategic placed manufacturing plant in India (providing just in time supply support to marquee customers) and exports to over 20 countries. Its capabilities include design, development, testing and validation. It has sizeable presence across all vehicle categories and is largely an OEM centric auto ancillary player (80%+ share in sales). It has indigenous R&D unit with a team size of 60 specialists. It also has sizeable presence in aftermarket space with 600+ dealers and 12,000 retailers

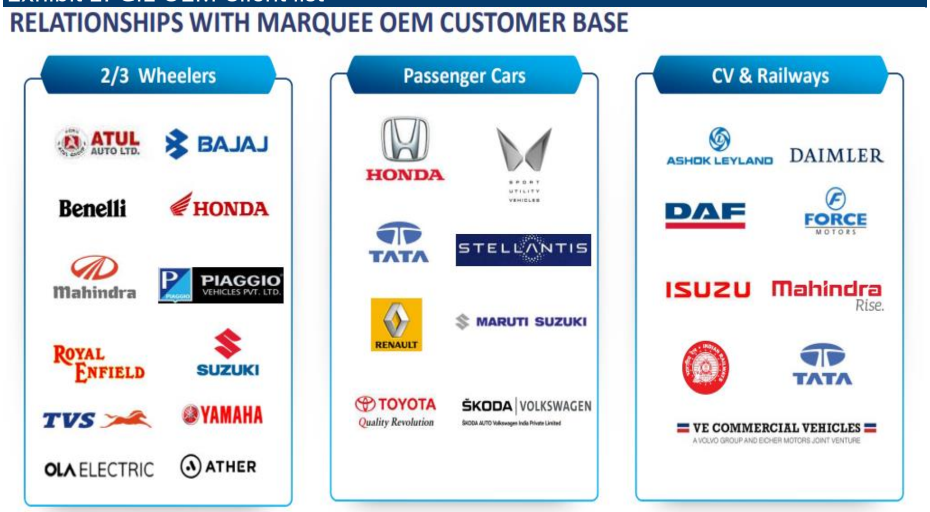
On the existing set up, GIL peak revenue potential is pegged at ~₹4,000 crore and it operated at blended capacity utilization of ~75% as of FY23

Exhibit 1: GIL Manufacturing print

Source: Company, ICICI Direct Research

Management expects Revenue mix from PV/2W to improve to 30%/55% respectively in coming 3 years vs 23%/63% as of FY23

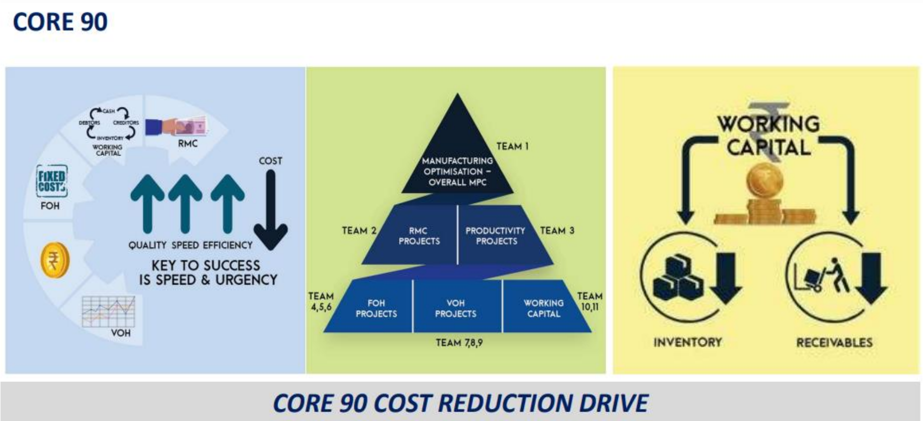
Exhibit 2: GIL OEM Client list



Source: Company, ICICI Direct Research

Management expects 0.5-1% margin improvement to come from its Core 90 program amidst double digit margin target over medium to long term

Exhibit 3: GIL – Core 90 program (margin and cashflow improvement initiative)



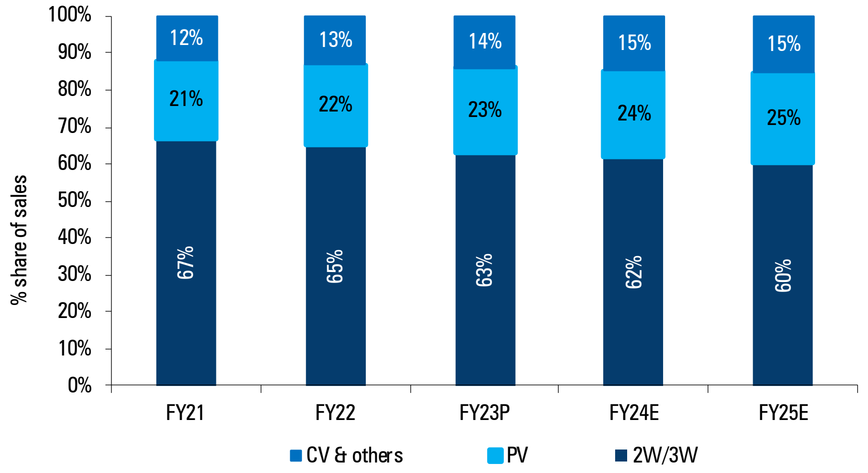
Source: Company, ICICI Direct Research

Investment Rationale

Increasing share of PV-SUV business to provide growth longevity

Domestically PV space is an underpenetrated category and is poised for a longer growth trajectory amidst rising per capital income and growing nature of domestic economy. No of cars per 1,000 people in India is pegged at <30 units while the same figure in the case of China is pegged at >100 units and in the developed nations of Europe it stands at ~>=500 units thereby implying long runway for growth as we create more infrastructure, generate jobs, step up the play in export markets and progress towards improving standard of living. Interestingly, GIL is conscious of this fact and is gaining traction in the PV space domestically. Company's share of revenues from PV space has improved from 21% in FY21 to 23% in FY23 and is further expected to improve to 25% with its own intent to improve it to 30%. This is positive from the growth longevity and bodes well for GIL going forward.

Exhibit 4: GIL – Revenue Mix across vehicle categories

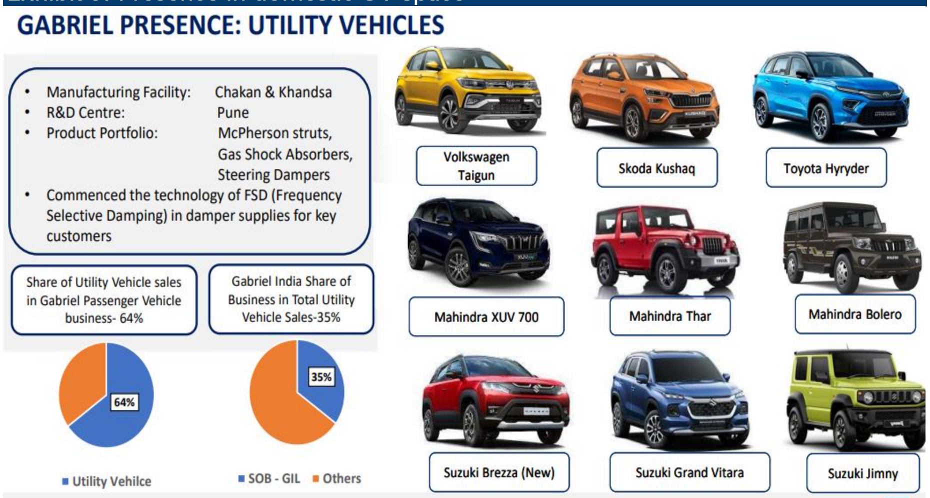


Source: Company, ICICI Direct Research

2-W/3W share of sales at GIL is seen on the declining trend and is down from 67% levels clocked in FY21 to 63% in FY23 and is expected to further decline to ~60% by FY25E with company's own intent to let it decline to ~55% going forward.

Interestingly, within PV space the company realizes ~64% of sales from the SUV space which is witnessing healthy demand traction with its domestic market share in SUV domain pegged at ~35%.

Exhibit 5: Presence in domestic UV space



Source: Company, ICICI Direct Research

SUV as a % of total car sales in India has improved from 28% in FY19 to ~52% in FY23 and is further expected to inch up amidst greater consumer demand for this space. GIL's prominent presence in SUV space bodes well capturing the premiumisation trend prevalent in the domestic PV space.

JV in sunroof space further makes it a good proxy to capture premiumisation trend

Interestingly to expand its presence in hot selling SUV space & to catch up on premiumization trend, company has entered into JV with Inalfa (globally 2nd largest sunroof manufacturer with OEM's like JLR, BMW, Mercedes, etc as clients) for manufacturing of sunroof system & related components for OEMs in India. Gabriel will hold 49% stake in the JV. It has already won orders from Hyundai & Kia for their entire range of products. Company intends to spend ~₹150 crores for setting up plant with initial capacity of ~2 lakh units and will be expanded to ~4 lakh units in 3-4 years with peak annual revenue potential of ~₹1,000 crores.

Management informed about sunroof penetration in SUV space at ~40% with same being minimal in entry level cars.

Management informed about sunroof currently being imported and will localize components in India & will primarily focus on Indian markets due to logistic issues while exporting.

Management informed about royalty of ~4-5% to be paid to Inalfa w.r.t TLA entered for sunroof components.

Management expects to breakeven within 1 year of operation and margin to be healthy double-digit

Managements expects plant to start from Q4FY24 in Chennai.

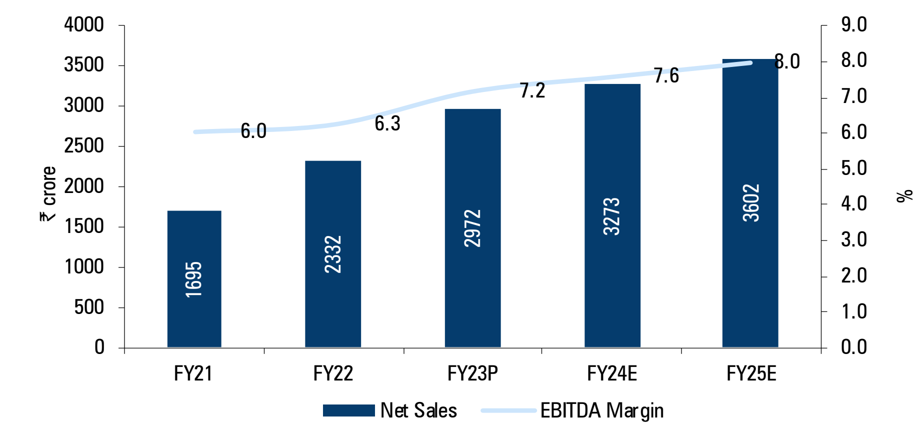
Exhibit 6: GIL – JV with Inalfa

Source: Company, ICICI Direct Research

Healthy financials, capital efficiency to the core

GIL has a capital efficient business model with healthy return ratios. With increasing sales & improving margins we expect the company to clock ~20% RoCE's by FY25E with Sales/PAT seen growing at a CAGR of 10/19% respectively over FY23-25E

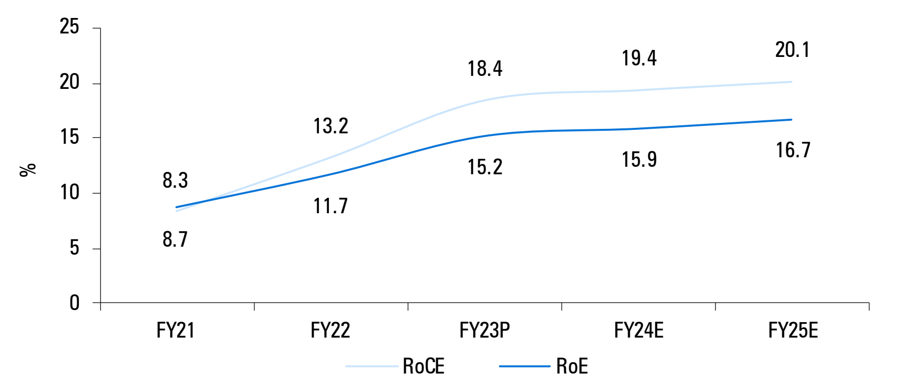
Exhibit 7: Trend in Sales, Margins



Source: Company, ICICI Direct Research

GIL is seen posting 10.1% net sales CAGR over FY23- 25E. Margins are seen improving to 8% by FY25E

Exhibit 8: Trend in return ratios



Source: Company, ICICI Direct research

We expect GIL to clock 20% RoCE by FY25E

Key risks and concerns

Slower than anticipated sales growth

GIL realises ~84% of its sales from OEM's and hence is susceptible to any slowdown in volumes at the OEM level. Any slower than anticipated revenues numbers over FY24E, FY25E can potentially lead to lower PAT estimates and is negative for our target price calculation

Slower than anticipated margin recovery

Metals namely steel and Aluminium are the key raw materials for GIL and hence is susceptible to volatile metal prices which are govern by global macroeconomics especially Chinese economy. Any advert increase in metal prices and consequent delay in passing of the same to end customers could result in muted margin profile and is negative for our target price calculation

Inorganic Acquisition

GIL has an ambition to be among the top 5 shock absorber players globally by 2025 which in sales terms implies a revenue of ~>=US$ 1 billion (~>=₹8,000 crore) vs. the current revenue base of ~₹3,000 crore. Organically such a target seems out of reach with GIL potentially acquiring a sizeable competitor which could be acquired at a stretched valuation and will be negative for our target price calculation. Company's management however seems to be value conscious and hence possibility of such an action (buying at stretched valuation) is remote.

Financial Summary

Exhibit 9: Profit and loss statement				₹ crore
(Year-end March)	**FY22**	**FY23P**	**FY24E**	**FY25E**
Net Sales	2332.0	2971.7	3272.8	3601.9
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	**2,332.0**	**2,971.7**	**3,272.8**	**3,601.9**
Growth (%)	37.6	27.4	10.1	10.1
Raw Material Expenses	1,786.3	2,268.8	2,487.3	2,737.5
Employee Expenses	159.7	183.1	202.9	216.1
Other Operating Expense	240.0	306.1	333.8	360.2
Total Operating Expenditure	2,186.0	2,758.0	3,024.0	3,313.8
EBITDA	**146.0**	**213.7**	**248.7**	**288.2**
Growth (%)	42.4	46.4	16.4	15.8
Depreciation	41.4	48.6	53.7	58.5
Interest	4.3	4.6	4.2	3.7
Other Income	26.2	17.4	19.6	20.6
PBT	**126.4**	**177.8**	**210.5**	**246.5**
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	36.9	45.5	53.0	63.2
PAT	**89.5**	**132.3**	**156.2**	**187.0**
Growth (%)	48.5	47.8	18.1	19.7
EPS (₹)	**6.2**	**9.2**	**10.9**	**13.0**

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				₹ crore
(Year-end March)	**FY22**	**FY23P**	**FY24E**	**FY25E**
Profit after Tax	89.5	132.3	156.2	187.0
Add: Depreciation	41.4	48.6	53.7	58.5
(Inc)/dec in Current Assets	-112.2	-16.4	-156.6	-129.3
Inc/(dec) in CL and Provisions	90.5	-28.3	137.3	67.4
Others	-23.2	-0.5	-15.5	-16.9
CF from operating activities	**86.0**	**135.7**	**175.2**	**166.8**
(Inc)/dec in Investments	-69.6	2.2	-35.0	-40.0
(Inc)/dec in Fixed Assets	-66.7	-98.2	-100.0	-75.0
Others	24.5	18.9	19.6	20.6
CF from investing activities	**-111.8**	**-77.1**	**-115.4**	**-94.4**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-1.8	-1.7	-2.0	-2.0
Dividend paid & dividend tax	-26.6	-42.0	-47.3	-55.5
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	3.3	8.6	0.0	0.0
CF from financing activities	**-25.1**	**-35.1**	**-49.3**	**-57.5**
Net Cash flow	**-50.9**	**23.4**	**10.6**	**14.9**
Opening Cash	253.6	202.7	226.1	236.6
Closing Cash	**202.7**	**226.1**	**236.6**	**251.6**

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				₹ crore
(Year-end March)	**FY22**	**FY23P**	**FY24E**	**FY25E**
Liabilities				
Equity Capital	14.4	14.4	14.4	14.4
Reserve and Surplus	752.4	855.9	969.1	1,104.4
Total Shareholders funds	**766.8**	**870.3**	**983.4**	**1,118.7**
Total Debt	11.1	9.4	7.4	5.4
Deferred Tax Liability	14.5	15.9	15.9	15.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	**792.3**	**895.6**	**1,006.7**	**1,140.0**
Assets				
Gross Block	889.4	978.3	1,088.0	1,163.0
Less: Acc Depreciation	504.0	552.6	606.3	664.8
Net Block	385.4	425.8	481.7	498.1
Capital WIP	20.3	29.6	20.0	20.0
Total Fixed Assets	**405.8**	**455.4**	**501.7**	**518.1**
Investments	94.6	92.4	127.4	167.4
Inventory	210.0	224.8	269.0	296.0
Debtors	382.4	383.7	493.2	592.1
Loans and Advances	29.2	29.5	32.5	35.7
Other Current Assets	0.0	0.0	0.0	0.0
Cash	**202.7**	**226.1**	**236.6**	**251.6**
Total Current Assets	824.2	864.1	1,031.3	1,175.5
Current Liabilities	530.3	499.0	627.7	690.8
Provisions	30.5	33.5	42.1	46.4
Current Liabilities & Prov	560.7	532.4	669.8	737.1
Net Current Assets	**263.5**	**331.6**	**361.5**	**438.3**
Others Assets	28.6	16.3	16.3	16.3
Application of Funds	**792.3**	**895.6**	**1,006.7**	**1,140.0**

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	**FY22**	**FY23P**	**FY24E**	**FY25E**
Per share data (₹)				
EPS	6.2	9.2	10.9	13.0
Cash EPS	9.1	12.6	14.6	17.1
BV	53.4	60.6	68.5	77.9
DPS	1.6	2.6	3.0	3.6
Cash Per Share (Incl Invst)	20.7	22.2	25.3	29.2
Operating Ratios (%)				
EBITDA Margin	6.3	7.2	7.6	8.0
PAT Margin	3.8	4.5	4.8	5.2
Inventory days	32.9	27.6	30.0	30.0
Debtor days	59.9	47.1	55.0	60.0
Creditor days	83.0	61.3	70.0	70.0
Return Ratios (%)				
RoE	11.7	15.2	15.9	16.7
RoCE	13.2	18.4	19.4	20.1
RoIC	21.5	29.4	28.4	29.3
Valuation Ratios (x)				
P/E	32.1	21.7	18.4	15.4
EV / EBITDA	17.8	12.1	10.4	8.8
EV / Net Sales	1.1	0.9	0.8	0.7
Market Cap / Sales	1.2	1.0	0.9	0.8
Price to Book Value	3.7	3.3	2.9	2.6
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.2	1.3
Quick Ratio	**0.7**	**0.8**	**0.8**	**0.9**

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey | **Head – Research** | **pankaj.pandey@icicisecurities.com**

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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