Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Gabriel India Ltd

Aiming for a double-digit margin

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ↔	CMP: Rs. 325	Price Target: Rs. 384 ↑

↑ 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. 4,668 cr
52-week high/low:	Rs. 338/129
NSE volume: (No of shares)	10.6 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	2.7
DII	10.9
Others	31.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	0.4	73.3	132.4	101.3
Relative to Sensex	-0.4	70.0	118.7	90.5

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on the stock with a revised PT of Rs 384, owing to substantial brand equity, market share expansion strategy, and profitability focus.
- Expecting a rise in content per vehicle due to increase in market share in the electric car sector.
- On track sunroof project, expansion in overseas markets, margin accretive Inorganic growth strategies and a renewed focus om exports contribute to the positive outlook.
- Stock trades at attractive multiples: P/E of 17.8x and EV/EBITDA of 10.7x FY26E estimates.

We have visited Gabriel India's (Gabriel) plant and tech centre at Pune and noted that (1) the company has been continuously investing in technology upgradation and (2) it is in row to increase automation at its plant. Further, the management has shared an optimistic outlook for its business and indicated that the sunroof project has been on track. ,The management has also reaffirmed its aim to attain double-digit EBITDA Margin in the next few years. We inferred that an increase in inhouse manufacturing of specific components (including castings) in place of procuring from a third-party suppliers would positively impact its gross margin. Further, the management is continuing to scout for a margin accretive inorganic growth opportunity in power train agnostic space. With its in-house efforts and pass on of raw material clauses with its customers the management is looking to sustain the improvement in its EBITDA margin. The management aims to broaden its customer base in overseas market to expand its export revenue potential. We believe that an increasing focus on the electric car segment would help it increase content per vehicle, given that Gabriel has already attained its presence in ~70% of the electric two-wheeler space.

- **Focusing on efficiency at the production level:** We have visited its floor shops and observed seamless operations as shock absorber manufacturing requiring multiple applications, including machining, threading, welding, assembling, etc. we have noted that it also performs laser welding at its shop floor. We understand that once the company could grow in-house castings, the probability of gross margin would expand on the increase in in house content. Further, at its floor shop the company is increasing automation to improve efficiency in production and maintain product quality. A shock absorber is a combination of more than 35 products and hence procurement and assembling of the right kind of components is a prerequisite for a durable and performing shock absorber, which we noted at its floor shops. We identified that the content per vehicle would increase on rise in penetration of electric cars and SUVs as EVs would have the additional weight of batteries. The higher weight of EVs would require strengthened and more durable shock absorbers ; hence, we expect EV business to be slightly more profitable for Gabriel than comparative IC business.
- **Investing in technology to remain ahead of market:** Along with Gabriel's plant, we have also visited its tech centre at Pune and observed that the company has continuously made efforts for product innovation and testing. Gabriel essentially performs testing and validation of the samples for 3-wheelers- and four wheelers at its tech centre in Pune. It has procured machines for testing from the USA and runs its tech centre on three shift and six days in week. Gabriel has installed imported machines which performs performance testing, durability testing and strength testing on the samples to offer a reliable product under its established brand, given that its tried and tested validation process allows it to commit to warranties to the customers as various OEMs have product warranty clauses associated with the order which varies from 2-6 years depending on the customers. It has dedicated teams at the tech centre for innovation, simulation, and product development, which cater to various projects and customers. ,It also has service teams that work with the customers on testing fields. We believe a continued focus on product development would help the company maintain its brand equity and positioning in the market.
- **Management shared an optimistic outlook:** The management is confident on the performance of its existing customers in FY24 and has been looking to expand its customer base along with wallet share with existing customers. Beyond the domestic market the management is hopeful of expanding its customers and waiting for a sizeable break, which would improve its annual export revenue run rate as it has already reached an export revenue run rate of Rs 100 cr/ annum. With an 89% market share Gabriel is the market leader in the domestic CV segment and is now exploring an opportunity to expand its presence in the overseas CV segment. Gabriel aims to become the top five players in the global suspension space from their current 7th or 8th place. While its Sunroof project has been on track, the company envisages continuing to look for an inorganic growth opportunity in margin accretive and power train agnostic segments (including in shock absorber segment). Based on its in-house programs and focus on profitable revenue streams the management is continuing to aspire for a double-digit margin in next few years. The management reiterated that its parent group has been highly supportive and has helped it in multiple corners in various business segments.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 384: With continued dominance with existing customers, Gabriel is continuously expanding its customer base and focussing on increasing wallet share with its existing customers. Given Gabriel enjoys a market leadership position in the domestic CV segment, it has started exploring business opportunities in overseas CV segment. Post gaining a healthy market share (~70%) in the electric two-wheeler space, the company is aiming to expand its presence in the electric car space. We believe that a sizeable market share in the electric car space would result in sharp rise in content per vehicle, given electric car carries additional weight of batteries and hence increases the requisite of more durable and high performing shock absorbers compared to existing shock absorbers. 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 the next few years compared to 4% currently. 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. Its sunroof project is on track and the management is continuously looking for inorganic growth opportunities in power train agnostic space. With introduction of earning estimates for FY26E, we maintain our Buy rating on the stock with a revised PT of Rs 384. owing to its strong brand equity, market share expansion strategy, focus on profitability, expectation of rise in content per vehicle, and inorganic growth strategies along with renewed focus on exports.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenues (Rs cr)	2,332	2,972	3,519	3,970	4,248
Growth (%)	37.6	27.4	18.4	12.8	7.0
AEBIDTA (Rs cr)	146	214	289	337	404
OPM (%)	6.3	7.2	8.2	8.5	9.5
Adj Net Profit (Rs cr)	90	132	184	216	262
Growth (%)	48.6	47.8	38.7	17.9	21.2
AEPS	6.2	9.2	12.8	15.1	18.3
P/E (x)	52.1	35.3	25.4	21.6	17.8
P/BV (x)	6.1	5.4	4.6	3.9	3.3
EV/EBIDTA (x)	31.0	21.0	15.7	13.2	10.7
ROE (%)	12.2	16.2	19.5	19.6	20.1
ROCE (%)	12.7	16.6	19.8	19.9	20.3

Source: Company; Sharekhan estimates

PV segment: focus on customer expansion

The revenue contribution from the PV segment has reached 24% (22% in FY23) as Gabriel is registering increase in market share in PV segment, given Gabriel has been focusing on expansion in market share in PV segment. The company continues to gain new projects from the customers as recently Gabriel has received new programs like for Jimny, electric citroen C3. While Gabriel has a strong presence in the electric 2-wheeler space, its business in the electric car segment has been at a nascent stage. The company has been engaged with the leading players in electric car segment to expand its presence in EPV segment also. The rise in the share of SUVs in PV segment is assumed to be content accretive for Gabriel.

CV segment: eyeing the overseas market

With an 89% market share Gabriel continues to maintain its leadership position in CV segment. The revenue contribution from the CV segment has increased from 12% in Q4FY23 to 13% in Q1FY24. With its dominance in the domestic CV space, the management is now exploring an opportunity to expand its presence in the overseas CV market. We believe that a sizeable breakthrough in the overseas CV market would result in a sharp rise in its content per vehicle.

Railway segment: steady pathway

While the company has been receiving healthy exposure in the railway segment, it has been largely focussed on the automotive business. Railway contributes around ~ 1% to its topline. The management does not foresee a sharp jump in revenue contribution from the railway segment in the near term. Further the management is also exploring an opportunity in overseas railway segment also.

Sunroof business in JVs: is on track

The sunroof market in India was around one mn units in India in 2022. Panoramic type sunroof has 28% penetration in the Indian market. Panaromic sunroof offers higher ASPs compared to TVS type sunroofs.52% of the SUVs come out with Sunroof systems in India. The JV has already taken a site on lease and looking for machines installation The production is expected to be started by Jan 2024.Initially the JV would cater to Hyundai Motor India and Kia. Further, the company has also started engaging with other leading PV players like M&M, MSIL etc. for future business expansion. The company plans to invest Rs 60 cr in JV business in FY24. Inalfa would acquire a 51% stake in the company subject to receiving approvals from authorities. The benefits of the localization would be visible volumes would be ramped up, and supply chain would be developed.

Outlook: optimistic outlook

Gabriel has been continuously aiming for EBITDA margin improvement, and with RM cost tailwind, the management has guided that the improvement in EBITDA margin is sustainable. The management is continuously looking for an inorganic growth opportunity and targeting to expand its product portfolio further. With maintain its market positioning in the electric two wheeler space, the management is looking to expand its presence in the electric car space coming period. Gabriel is targeting 10% of its revenue to come from export markets in next 5 years compared to around 4% currently. Post starting supply forks to its single client, the company is now looking to expand its customer portfolio in the fork business. Gabriel assumes robust opportunity in overseas market for fork business due to the healthy adoption rate of environment-friendly E bikes in the overseas market.

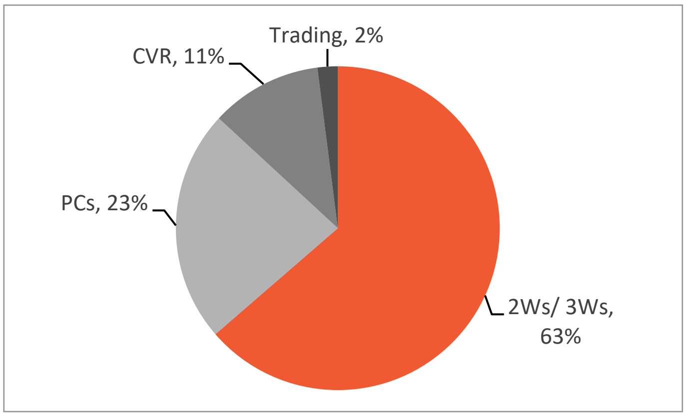
Change in earning estimates (Rs cr)

Particulars	New		Earlier		% change		Introduction
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E	FY26E
Revenue	3519	3970	3519	3970	-	-	4248
EBITDA	289	337	289	337	-	-	404
EBITDA margin (%)	8.2	8.5	8.2	8.5			9.5
PAT	184	216	184	216	-	-	262
EPS (Rs)	12.8	15.1	12.8	15.1	-	-	18.3

Source: Company; Sharekhan estimates

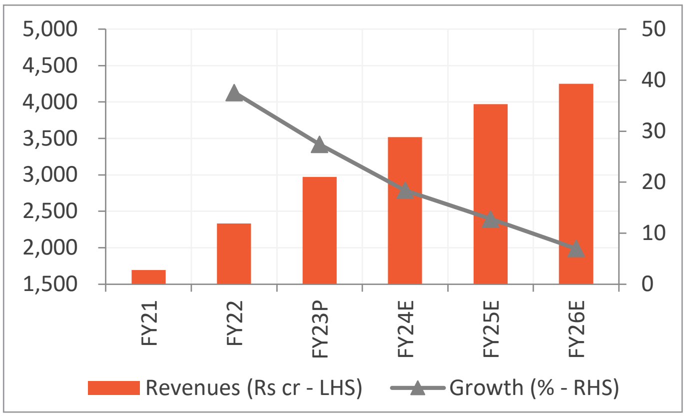
Financials in charts

Revenue Mix (%)



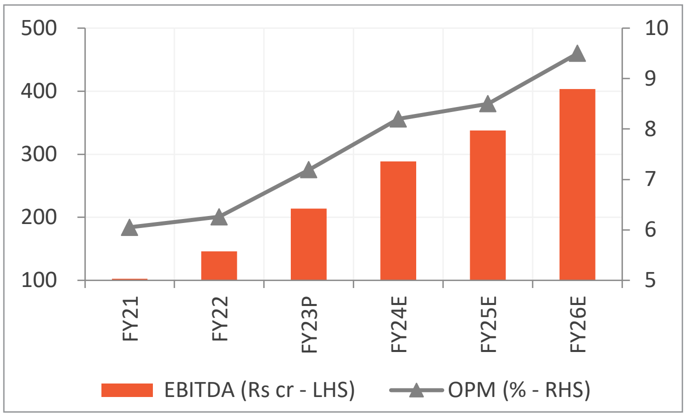
Source: Company, Sharekhan Research

Revenue and Growth Trend



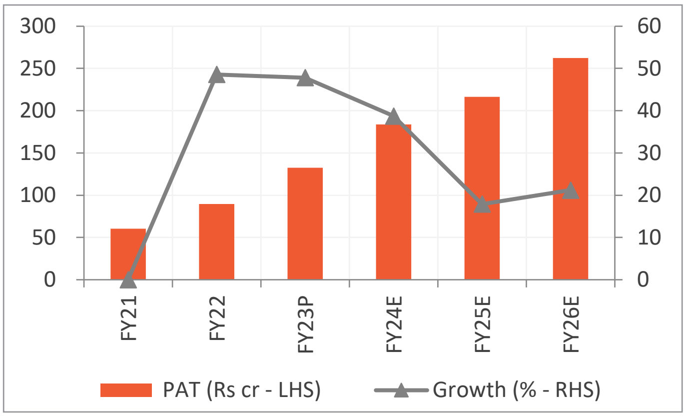
Source: Company, Sharekhan Research

EBITDA and OPM Trends



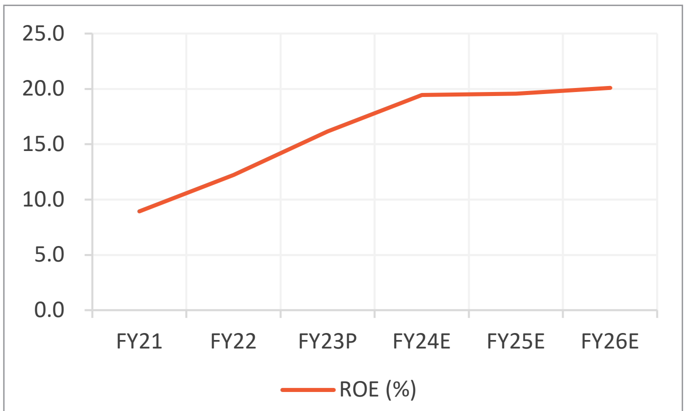
Source: Company, Sharekhan Research

PAT and Growth Trends



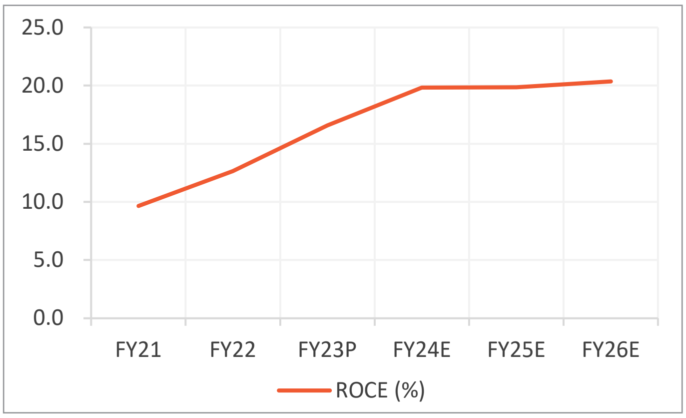
Source: Company, Sharekhan Research

ROE (%) Trend



Source: Company, Sharekhan Research

ROCE (%) trend



Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Structural demand in place

We remain optimistic about the automobile sector driven by pent-up demand across the segment. While PV and CV segment 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 passenger vehicle (PV), two-wheeler, and tractor segments growth. 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.

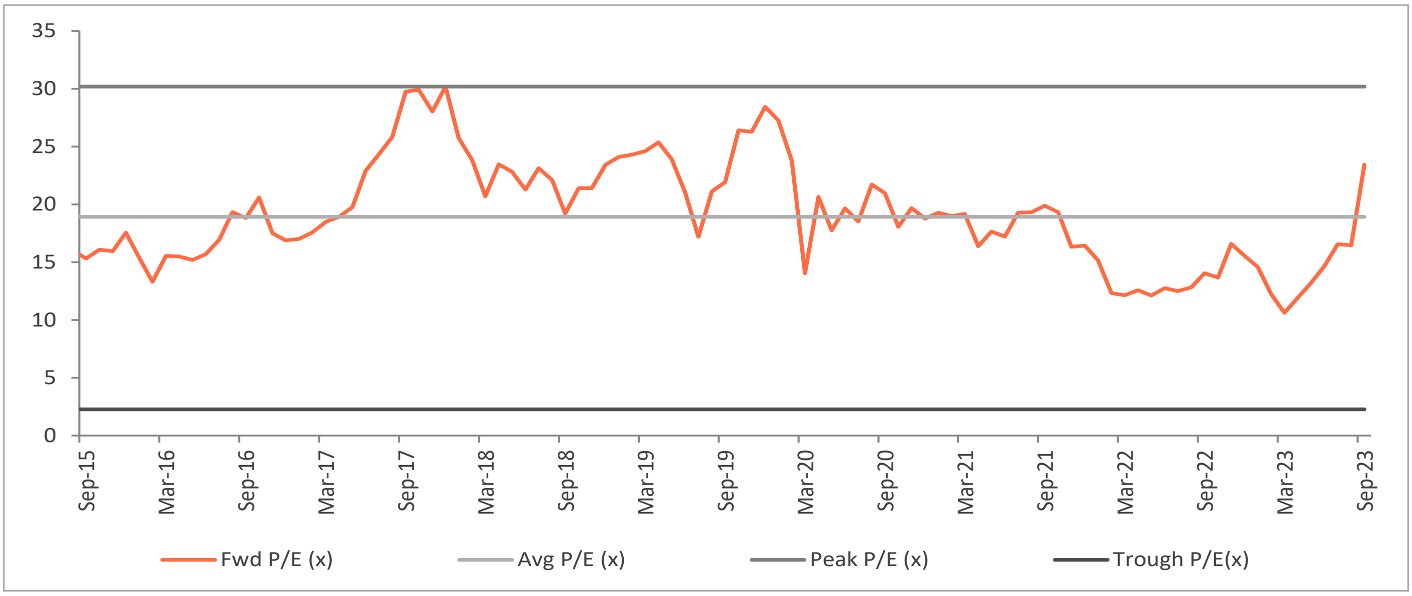
Company outlook - Beneficiary of leadership position, client relationships, technological edge, and strong earnings growth

Due to its strong brand, leadership, and technological edge, Gabriel is expected to be among the top beneficiaries of the rising penetration of e-2Ws/e-3Ws in India. 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 a revised PT of Rs. 384

With continued dominance with existing customers, Gabriel continuously expands its customer base and focuses on increasing wallet share with its existing customers. Given Gabriel enjoys a market leadership position in the domestic CV segment, it has started exploring business opportunities in the overseas CV segment. After gaining a healthy market share (~70%) in the electric two-wheeler space, the company aims to expand its presence in the electric car space. We believe that a sizeable market share in electric car space would result in a sharp rise in content per vehicle, given electric car carries additional weight of batteries and hence increases the requisite of more durable and high-performing shock absorbers compared to existing shock absorbers. Gabriel is enhancing its technological expertise to cater to the export market as it is targeting 10% of revenues from the export markets in the next few years compared to 4% currently. After collaboration with Inalfa for manufacturing of sunroof systems in India, the management is optimistic about its diversification strategy and still open for any suitable inorganic growth opportunity. Its sunroof project is on track, and the direction is continuously looking for inorganic growth opportunities in power train agnostic space. With the introduction of earning estimates for FY26E, we maintain our Buy rating on the stock with revised PT of Rs 384. owing to its strong brand equity, market share expansion strategy, focus on profitability, expectation of a rise in content per vehicle, and inorganic growth strategies along with renewed focus on exports.

One-year forward P/E (x) band



Source: 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: 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 manufacturing suspension components in India. The company has a strong presence across segments. 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 been developing 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 laid down its plans to increase its market shares 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 through in-house R&D and technical collaborations). Based on the company's well-thought-out and workable strategies and 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

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	Nippon Life India	1.09
6	Dimensional Fund Advisors LP	0.98
7	Anand Anjali	0.45
8	Singh Anjali Anand	0.45
9	Anand Kiran D	0.42
10	LIC Mutual Fund Asset Management Co Ltd	0.25

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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