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Stock Update

Plant visit note

Gabriel India Ltd

Spotlight on Profitability and Inorganic Growth

Automobiles		Sharekhan code: GABRIEL		
Reco/View: Buy	↔	CMP: **Rs. 340**	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. 4,884 cr
52-week high/low:	Rs. 358 / 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	3.0
DII	11.7
Others	30.2

Price chart

(%)	1m	3m	6m	12m
Absolute	2.9	49.9	120.6	124.7
Relative to Sensex	4.6	53.0	114.5	117.4

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on the stock with an unchanged PT of Rs 384. owing to its focus on profitability, the expectation of a rise in content per vehicle, inorganic growth strategies, and a renewed focus on exports.
- Reported PAT at Rs 47 cr against an estimated Rs 50 cr, sustained EBITDA margin at ~8.5% level.
- The Sunroof project is on track continuously looking for an inorganic opportunity in overseas markets.
- Stock trades at P/E multiple of 18.6x and EV/EBITDA multiple of 11.2x its FY26E estimates.

Broadly, Gabriel India (Gabriel) has reported its Q2Fy24 result close to estimates as it reported EBITDA / APAT at Rs 74cr/ 47 cr were comparable to estimates of Rs 79/ 50 cr. Overall, Gabriel seems to be in a strong position with a diversified product portfolio and a solid market presence. Sequentially, revenue has increased by 7.3% to Rs 864.4 cr (against an estimate of Rs 864 cr) on (1) ~7.3% increase in revenue from the 2&3 wheeler segment (2) ~11.8% increase in revenue from PV segment (3) ~7.3% increase in trading revenue and (4) ~1% decline in revenue from CV segment. EBITDA has increased by 6.9% q-o-q to Rs 73.8 cr (against an estimate of Rs 79 cr). Despite a 50 bps contraction in gross margin due to weak revenue mix on weak performance in exports, the EBITDA margin remain flat at ~ 8.5% (against an estimate of Rs 9.0%). With its continuous focus on profitability and cost control initiatives Gabriel is sustaining its EBITDA margin at ~8.5% level, given this was the consecutive second quarter when the company has reported EBITDA margin close to 8.5%. Exports came down from Rs 31.7cr in Q1Fy24 to Rs 23.7 c in Q2Fy24, mainly due to high inventory situation in Columbia. Employee costs have increased due to restructuring, with a sustainable impact on the numbers. With this operational performance, APAT increased by 10.5% q-o-q to Rs 47 cr (against an estimate of Rs 50 cr). Gabriel regained its market share at 81% in the electric two-wheeler segment in H2FY24 from 73% in q1FY24. 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 ~81% of the electric two-wheeler space.

Key positives

- Sustained EBITDA margin at close to 8.5%.
- Market share in the electric two-wheeler segment reached 81% in H1FY24.
- Dispatched sunroof fitment to its client for trial purposes.

Key negatives

- Gross margin contracted by 50 bps q-o-q due to weak revenue from export markets and change in product mix.
- Exports came down from Rs 31.7cr in Q1Fy24 to Rs 23.7 c in Q2Fy24, largely due to the high inventory situation in Columbia.
- While it has an 81% market share in the electric two-wheeler space it holds only an 8% market share in the electric 3 wheeler space as it is currently associated with only organized players in the electric three wheeler space.

Management Commentary

- The Sunroof project is on track, and trial production is expected to begin in January 2024
- Continuously looking for an inorganic growth opportunity in overseas market
- Have been looking for a breakthrough in overseas CV market to increase its content per vehicle as it already enjoys a dominant position in the domestic CV space.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 384: Post reporting close to estimated performance in Q2Fy24, the management sounded positive for H2FY24 and continuously focussing on sustaining margins at an improved level along with aspiring for a double-digit EBITDA margin in the medium term. Going forward, the management is focussed on improvement in operating performance and with raw material cost tailwind, the management has guided for a sustainability of improvement in EBITDA margin. Besides maintaining its position in the electric 2 w segment, Gabriel in now looking to make sustainable space in electric car space. It has been receiving new programs in most of the segments, and the JV project (Inalfa) is on track. Gabriel is enhancing its technological expertise to cater to the export market, as it is targeting 10% of revenues to come from the export markets. After collaboration with Inalfa for manufacturing of sunroof systems in India, the management is optimistic on its diversification strategy and is still open to any suitable inorganic growth opportunity. We believe that a sizeable market share in the electric car space would result in a sharp rise in content per vehicle, given electric car carries an additional weight of batteries and hence increases the requisite of more durable and high-performing shock absorbers compared to existing shock absorbers. We maintain our Buy rating on the stock with an unchanged PT of Rs 384. owing to its strong brand equity, market share expansion strategy, focus on profitability, the expectation of a rise in content per vehicle, and inorganic growth strategies and renewed focus on exports.

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

Valuation table	FY22	FY23P	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)	54.6	36.9	26.6	22.6	18.6
P/BV (x)	6.4	5.6	4.8	4.1	3.4
EV/EBIDTA (x)	32.5	22.0	16.4	13.9	11.2
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

Traction continue

- The net cash position in 6M FY24 stood at Rs 271.1 cr.
- Electric scooter segment and segment is recovering after a subsidy cut. In the Electric 2-Wheeler segment, Gabriel holds an 80% market share, supplying all leading players except Bajaj.
- Commercial vehicles (CV) contribute 12% to the total revenue, with a revival in replacement demand in CV segment is supporting its performance in CV segment
- Channel mix stands at OEM at 86%, Replacement at 12%, and Exports at 2%.
- Segmental revenue mix : PVs: 25% CVs: 12% two-wheeler/three-wheeler: 61% Trading:2%.
- They experienced a dip in exports due to slow movement in Columbia, mainly caused by earlier inventory build-up.
- Gabriel continues to gain new programs across the segments.
- Gabriel has been looking for a breakthrough in overseas CV market to expand its content per vehicle and revenue contribution from the CV segment as it almost enjoys a monopolistic position in the domestic CV shock absorber segment.
- It maintained a strong presence in after market segment due to its extensive experience and cost-effective value-added products.
- CV shock absorber manufacturing is characterised by high variety and low volume, and the company has been developing new products for global players, intending to maintain its current market share.
- The European engineering centre in Belgium is now operational, with plans to invest Rs 10-12 crore annually in intangible engineering ventures. The tech centre in Belgium aims to acquire knowledge in semi-active suspension for PVs (passenger vehicle segment).
- The company holds an 8% market share in the electric three-wheeler segment and has strong ties with organised players.
- Electronic suspension technology, typically found in premium products, currently has limited global penetration and comes at a premium of 2.5 to 3 times regular suspension. In the electric PV segment, EVs constitute just 1% of the overall PV market, with slow growth due to high costs, although a new order for a model from TML is expected to boost market share. Notably, there is no supply to Nexon, which has a significant share in the EV market. Investments are being made in a technology centre to reduce noise in electric vehicles.

Continue on diversification strategy

- The sunroof project is on track, and the company has sent the first fitment sample of sunroof for trials. Gabriel has been engaged with other customers to expand its footprint in the sunroof segment.
- The initial capacity of 2 lakh units will begin operation in January, with an expected 60% capacity utilisation in the first year.
- New product additions may be seen in FY25.
- Furthe the company is continuously seeking an inorganic growth opportunity in the overseas shock absorber segment.

Outlook

- Gabriel is optimistic about its performance in the CV, PV and electric two-wheeler segment and is hoping of a revival in the wheeler segment to drive its performance in the wheler segment.
- The company continues to aim for a double-digit EBITDA margin, supported by the Core 90 project, regardless of commodity benefits.

Change in earning estimates Rs cr

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

Source: Company; Sharekhan Research

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	% yoy	Q1FY24	%qoq
Net Sales	864.4	802.9	7.7	805.8	7.3
Total operating expenses	790.7	743.8	6.3	736.8	7.3
EBIDTA	73.8	59.1	24.8	69.0	6.9
Depreciation	14.1	11.8	20.0	13.7	2.9
Interest	1.2	1.1	17.5	2.2	(44.6)
Other Income	4.6	2.9	55.9	4.6	(1.4)
PBT	63.0	49.2	28.0	57.7	9.2
Tax	16.1	12.7	26.9	15.2	5.6
Reported net profit	47.0	36.6	28.4	42.5	10.5
Adjusted net profit	47.0	36.6	28.4	42.5	10.5
Adjusted EPS	3.3	2.5	28.4	3.0	10.5

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	QoQ (bps)
Gross margin (%)	24.7	23.0	170	25.2	(50)
EBIDTA margin (%)	8.5	7.4	120.0	8.6	-
Net profit margin (%)	5.4	4.6	90	5.3	20
Effective tax rate (%)	25.5	25.7	(20)	26.3	(90)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – 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 growth in the passenger vehicle (PV), 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.

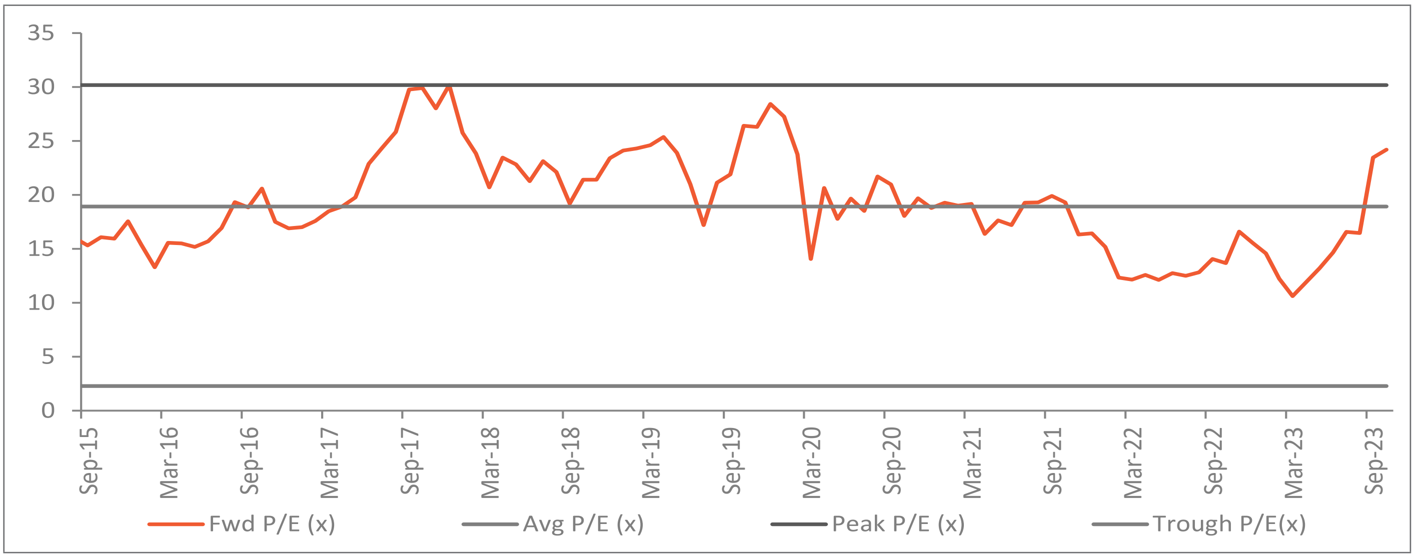
■ Company Outlook – Beneficiary of leadership position, client relationships, technological edge, and strong earnings growth

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 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. 384

Post reporting close to estimated performance in Q2Fy24 the management sounded positive for H2FY24 and continuously focussing on sustaining margins at an improved level along with aspiring for a double-digit EBITDA margin in the medium term. Going forward, the management is focussed on improvement in operating performance and with a raw material cost tailwind, the management has guided for a sustainability of improvement in EBITDA margin, besides maintaining its position in the electric 2 w segment, Gabriel is now looking to make sustainable space in electric car space. It has been receiving new programs in most of the segments, and the JV project (Inalfa) is on track. Gabriel is enhancing its technological expertise to cater to the export market, targeting 10% of revenues to come from the export markets. 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. 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. We maintain our Buy rating on the stock with an unchanged 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.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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% 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 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 well 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 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 Rishi Luharuka	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding ()
1	Asia Investments Pvt Ltd	52.6
2	HDFC Asset Management Co Ltd	9.2
3	Anand Deep C	1.5
4	Nippon Life India Asset Management Ltd	1.1
5	Dimensional Fund Advisors LP	0.9
6	Union Mutual Fund/India	0.6
7	Singh Anjali Anand	0.5
8	Anand Kiran D	0.4
9	LIC Mutual Fund Asset Management Co Ltd	0.3
10	American Century Cos Inc	0.2

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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