Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Gabriel India Ltd

Focus on diversification

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ↔	CMP: Rs. 325
Price Target: Rs. 433 ↔	

↑ 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		↔	

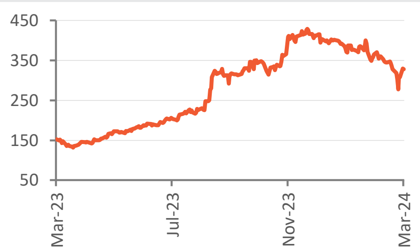
Company details

Market cap:	Rs. 4,668 cr
52-week high/low:	Rs. 440 / 129
NSE volume: (No of shares)	6.2 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	4.1
DII	12.2
Others	28.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.1	-20.2	5.6	115.8
Relative to Sensex	-8.2	-21.0	-3.2	93.9

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on Gabriel India with an unchanged PT of Rs. 433, owing to its strong brand equity, market share expansion strategy, focus on profitability, expectation of a rise in content per vehicle, inorganic growth strategies, and renewed thrust on exports.
- Sunroof project is on track and the company continues on its diversification strategy.
- Gabriel is sustaining a high-margin trajectory and aspiring for a double-digit margin in coming years.
- Stock trades at a P/E multiple of 17.3x and EV/EBITDA multiple of 10.8x its FY2026 estimates.

We reiterate a Buy on Gabriel India due to its robust brand equity, market share expansion, focus on profitability, anticipation of higher content per vehicle, pursuit of inorganic growth, and renewed emphasis on exports. The shock absorber manufacturing sector for commercial vehicles is characterised by high variety and low volumes. Gabriel India aims to offer value-added products to its global customers while maintaining its domestic market share. With an expected rise in electric car and SUV penetration, we foresee an increase in vehicle content, particularly with the additional weight of batteries in EVs, necessitating stronger and more durable shock absorbers. This could potentially make the EV segment slightly more profitable for Gabriel India as compared to traditional internal combustion (IC) vehicles. The management is committed to achieving a double-digit margins in the coming years through in-house initiatives and focus on profitable revenue streams. Gabriel India is also enhancing its technological capabilities to target a higher revenue share from export markets, aiming for 10% compared to the current 4%. Additionally, with its entry into the sunroof segment for passenger vehicles, the company is actively seeking suitable inorganic opportunities to diversify its revenue streams.

- **EV: an opportunity to grow:** While the passenger vehicle (PV) and two-wheeler (2W) segments are expected to maintain their momentum, the commercial vehicle (CV) segment might experience a temporary setback due to the upcoming general elections in the near term. Although the electric vehicle (EV) segment was anticipating disruption following the sudden end of FAME subsidy by March 2024, the government has introduced EMPS (Electric Mobility Promotion Scheme) for the four months starting April 2024, allocating Rs 500 crore for it. This move is anticipated to sustain momentum in the EV segment and provide time to adapt to the end of the subsidy era. Additionally, the decline in Li-ion battery prices is expected to offset loss of subsidies in the near to medium term. Gabriel plans to enhance its aftermarket product portfolio by introducing new products and aims to further expand its offerings. The company's objective is to achieve a double-digit EBITDA margin by FY2026.
- **Healthy market share:** Gabriel holds a 24% market share in the passenger vehicle (PV) segment. For Maruti Suzuki, the company serves as a secondary vendor for the Swift and Dzire platforms, typically receiving a 30% share in the business. Similarly, Gabriel collaborates with various electric vehicle (EV) manufacturers in the PV segment and has begun receiving orders for EV platforms from major players. Its partnership with Maruti has led to an increased wallet share due to the acceptance of its high-quality products. Across segments, Gabriel continues to secure new programs, anticipating a rise in passenger vehicle (PV) production in Q4FY24 compared to Q3FY23, which is expected to enhance its performance in the PV segment sequentially. In the two-wheeler (2W) segment, Gabriel commands as a 32% market share and continues to secure new orders. Additionally, it holds a dominant 73% market share in the electric two-wheeler segment and is collaborating with a leading domestic two-wheeler player on semi-active suspension technology.
- **Continue on diversification:** Gabriel's sunroof project is progressing as planned, with production already underway since January 2024. Volume projections indicate a gradual improvement. Apart from its current clientele, the company is actively pursuing opportunities with multiple customers in the sunroof segment. In addition to the sunroof project, Gabriel is exploring inorganic growth avenues in overseas markets. The management's objective is to broaden its customer base internationally, thereby enhancing its potential for export revenue. Increased emphasis on the electric car segment is expected to bolster content per vehicle, leveraging Gabriel's established presence in the electric two-wheeler space. Furthermore, the company maintains a robust presence in the aftermarket segment, thanks to its extensive experience and cost-effective value-added products.

Our Call

Valuation – Maintain Buy with a unchanged PT of Rs. 433: Gabriel has consistently maintained its EBITDA margin above 8% for the past three quarters and aims to achieve a double-digit EBITDA margin by FY26. Alongside its core business, the company is securing new programs with multiple domestic customers and increasing its market share with Maruti Suzuki. Having garnered significant traction in the electric two-wheeler segment, Gabriel is now actively pursuing opportunities in the electric car space. A substantial market share in EVs is expected to drive a notable increase in content per vehicle, particularly due to the additional weight of batteries necessitating more durable and high-performance shock absorbers. The sunroof project remains on schedule, and Gabriel is actively seeking inorganic opportunities to expand its product portfolio. The management is focused on broadening the customer base in the overseas markets to enhance export revenue potential, with engagements already underway with two global PV players for sizable orders. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 433, driven by its strong brand reputation, expansion strategies, profitability focus, anticipated rise in content per vehicle, inorganic growth initiatives, and enhanced export efforts.

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	FY22	FY23	FY24E	FY25E	FY26E
Revenues (Rs cr)	2,332	2,972	3,404	3,809	4,152
Growth (%)	37.6	27.4	14.5	11.9	9.0
AEBIDTA (Rs cr)	146	214	283	339	415
OPM (%)	6.3	7.2	8.3	8.9	10.0
Adj Net Profit (Rs cr)	90	132	178	217	270
Growth (%)	48.6	47.8	34.7	21.6	24.7
AEPS	6.2	9.2	12.4	15.1	18.8
P/E (x)	52.1	35.3	26.2	21.5	17.3
P/BV (x)	6.1	5.4	4.6	3.9	3.3
EV/EBIDTA (x)	31.0	21.0	16.0	13.3	10.8
ROE (%)	12.2	16.2	18.9	19.7	20.7
ROCE (%)	12.7	16.6	19.4	20.1	21.0

Source: Company; Sharekhan estimates

Continue on diversification strategy

Gabriel's sunroof project is on track, as it has already begun production and looking for gradual ramp up of volumes. 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. Product additions may be seen in coming years. Further the company is continuously seeking an inorganic growth opportunity in the overseas shock absorber segment.

PV segment: Focus on customer expansion

Revenue contribution from the PV segment has reached 25% (22% in FY23) as Gabriel is registering an 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. 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.

Healthy growth path

Gabriel has been continuously aiming for improving EBITDA margins 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.

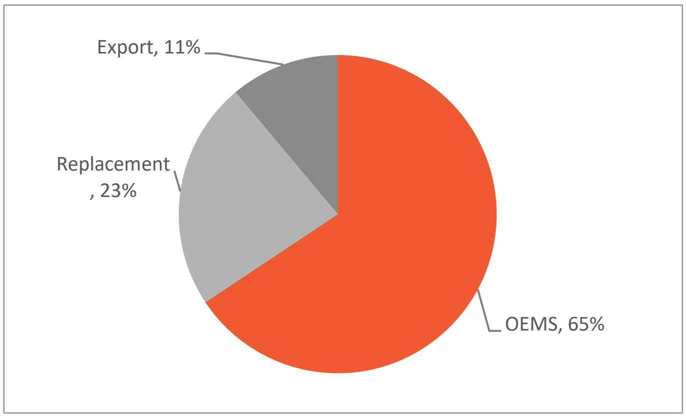
Change in estimates

Particulars	New			Earlier			% change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	3404	3809	4152	3404	3809	4152	-	-	-
EBITDA	283	339	415	283	339	415	-	-	-
EBITDA margin (%)	8.3	8.9	10.0	8.3	8.9	10.0	-	-	-
PAT	178	217	270	178	217	270	-	-	-
EPS (Rs)	12.4	15.1	18.8	12.4	15.1	18.8	-	-	-

Source: Company; Sharekhan Research

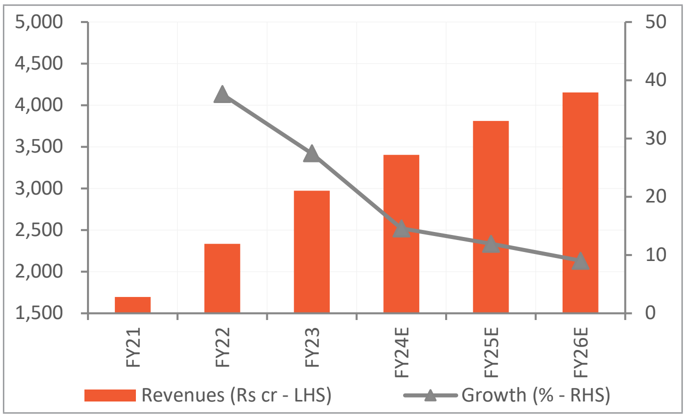
Financials in charts

Revenue Mix (%)



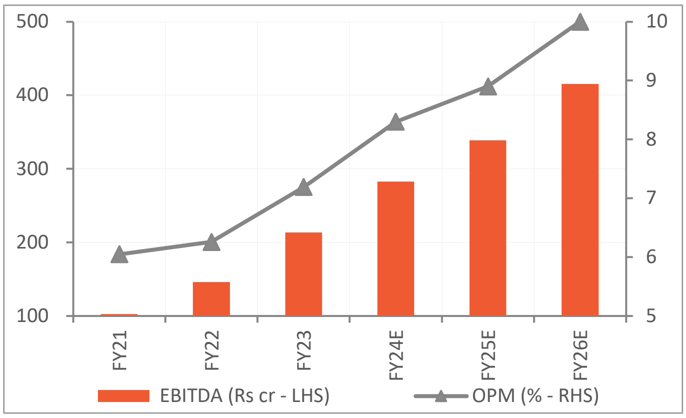
Source: Company, Sharekhan Research

Revenue and Growth Trend



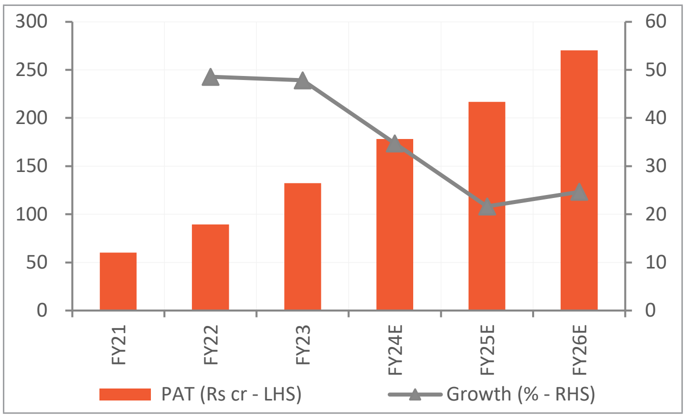
Source: Company, Sharekhan Research

EBITDA and OPM Trends



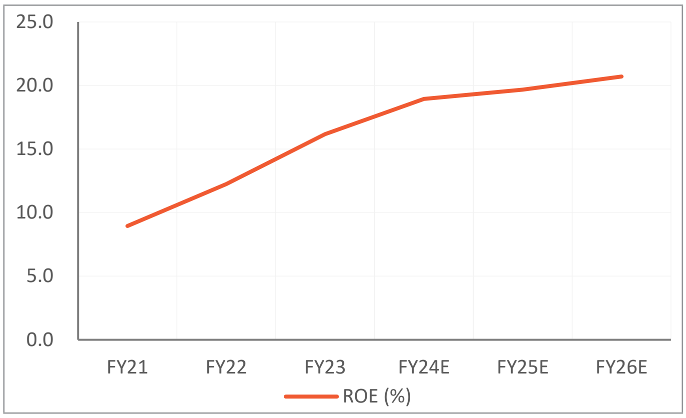
Source: Company, Sharekhan Research

PAT and Growth Trends



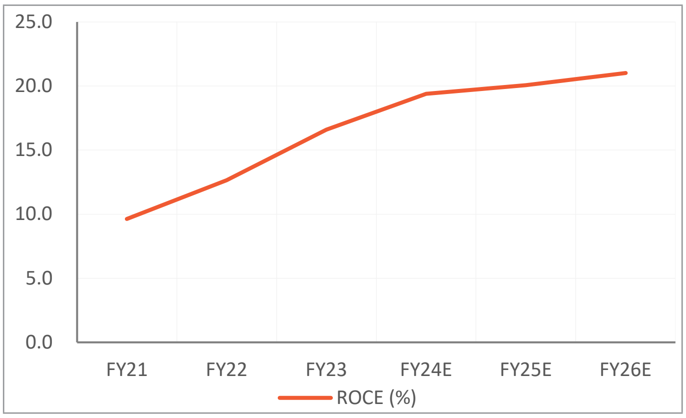
Source: Company, Sharekhan Research

ROE (%) Trend



Source: Company, Sharekhan Research

ROCE (%) trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Structural demand in place

We remain optimistic on 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 MHCVs 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. 433

Gabriel has consistently maintained its EBITDA margin above 8% for the past three quarters and aims to achieve a double-digit EBITDA margin by FY26. Alongside its core business, the company is securing new programs with multiple domestic customers and increasing its market share with Maruti Suzuki. Having garnered significant traction in the electric two-wheeler segment, Gabriel is now actively pursuing opportunities in the electric car space. A substantial market share in EVs is expected to drive a notable increase in content per vehicle, particularly due to the additional weight of batteries necessitating more durable and high-performance shock absorbers. The sunroof project remains on schedule, and Gabriel is actively seeking inorganic opportunities to expand its product portfolio. The management is focused on broadening the customer base in the overseas markets to enhance export revenue potential, with engagements already underway with two global PV players for sizable orders. We maintain our Buy rating on the stock with an unchanged price target (PT) of Rs. 433, driven by its strong brand reputation, expansion strategies, profitability focus, anticipated rise in content per vehicle, inorganic growth initiatives, and enhanced export efforts.

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, 24% in the PV segment, and 89% 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 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 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

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	52.64
2	HDFC Asset Management Co Ltd	9.18
3	Anand Deep C	1.49
4	Union Mutual Fund/India	1.25
5	Dimensional Fund Advisors LP	1.03
6	Nippon Life India Asset Management	0.87
7	Singh Anjali Anand	0.45
8	BlackRock Inc	0.42
9	Anand Kiran D	0.42
10	American Century Cos Inc	0.16

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

Sharekhan

by BNP PARIBAS

DISCLAIMER

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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200 / 022-69920600.