Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Gabriel India Ltd

Inline result, growth strategies are in place

Automobiles	Sharekhan code: GABRIEL
Reco/View: Buy ↔	CMP: Rs. 432
	Price Target: Rs. 558 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Gabriel reported PAT at Rs. 52.7 crore (+12.2% y-o-y) against our estimate of Rs. 54 crore on 3% beat in revenue estimates and 50 bps y-o-y expansion in gross margin.
- The Sunroof project has delivered EBITDA margin of 16.6% in Q2FY2025 against 14% in Q1FY2025.
- We maintain BUY with an unchanged PT of Rs. 558, driven by its strong brand reputation, expansion strategies, profitability focus, anticipated rise in content per vehicle, inorganic growth initiatives, and enhance export potential.
- The stock trades at a P/E multiple of 20.6x and EV/EBITDA multiple of 13.2x its FY2027E.

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		↔	

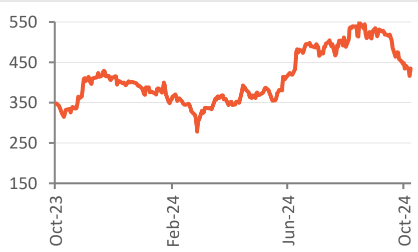
Company details

Market cap:	Rs. 6,205 cr
52-week high/low:	Rs. 559 / 272
NSE volume: (No of shares)	6.3 lakh
BSE code:	505714
NSE code:	GABRIEL
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	55.0
FII	5.5
DII	12.9
Others	26.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-18.3	-8.0	24.0	25.1
Relative to Sensex	-13.4	-8.0	13.7	3.5

Sharekhan Research, Bloomberg

Gabriel India Limited's (Gabriel) Q2 results were broadly in line with estimates. EBITDA stood at Rs. 79.1 crore against estimate of Rs. 81 crore on 50 bps y-o-y expansion in gross margin and healthy traction in the two-wheeler (2W) segment. Revenue increased by 6.9% y-o-y to Rs. 924.0 crore (vs. estimate of Rs. 897 crore). EBITDA increased by 7.3% y-o-y to Rs. 79.1 crore (vs. estimate of Rs. 81 crore). EBITDA margin stood flat on a y-o-y basis at 8.6% (vs. estimate of 9.1%) on 50 bps y-o-y expansion in gross margin. Despite higher-than-expected revenue, the EBITDA margin miss can be attributed to increased employee cost. With this operating performance, APAT increased by 12.2% y-o-y to Rs. 52.7 crore (vs. estimate of Rs. 54 crore). Further, the company's sunroof project has been on track and has delivered an EBITDA margin at 16.6% in Q2FY2025 against 14% in Q1FY2025.

Key positives

- Sunroof project has delivered an EBITDA margin of 16.6% in Q2FY2025 compared to 14% in Q1FY2025.
- Gross margin expanded by 50 bps y-o-y in Q2FY2025.
- Revenue contribution from exports has increased from 2.7% in Q2FY2024 to 3.1% in Q2FY2025.

Key negatives

- Employee cost as a percentage of sales expanded by 30 bps q-o-q to 6.5% on rise in wagers in certain sections and increased headcounts.
- Revenue contribution from the CV segment declined from 12% in Q2FY2024 to 10% in Q2FY2025, in line with the industry trends.
- Revenue contribution from the PV segment declined to 23% in Q2FY2025 from 25% in Q2FY2024 due to change in product mix.

Management Commentary

- Sustainable EBITDA margin in the Sunroof project is 14-16%.
- Along with an organic growth path, management continues to look for suitable inorganic growth opportunities.
- Management targets revenue of Rs. 200 crore from Sunroof project in FY2025 and Rs. 1,000 crore in the next five years.

Our Call

Valuation – Maintain BUY with an unchanged PT of Rs. 558: Post reporting inline performance in Q2FY2025, management continues to target for a double-digit EBITDA margin by FY2026, backed by its strategic plans. The company continues to aim to expand its penetration in the overseas markets in the CV and railway segment. The Sunroof project has been progressing well in terms of volume ramp-up and financials. The Sunroof project has delivered an EBITDA margin of 16.6%, an improvement from 14.0% in Q1FY2025. Although its plan to transform the Sunroof project (which is currently under its own wholly owned subsidiary) in a JV company (between Gabriel and Inalfa) has not got the government's clearance, management has indicated the growth plan of the Sunroof project will remain as it is. The Sunroof project will work under the terms of the technical collaboration and alliance agreement executed with Inalfa. Along with that, the company is looking for a suitable inorganic growth opportunity. We maintain our BUY rating on the stock with an unchanged price target (PT) of Rs. 558, driven by its strong brand reputation, expansion strategies, profitability focus, anticipated rise in content per vehicle, inorganic growth initiatives, and enhance export potential.

Key Risks

Pricing pressures from automotive OEM customers can impact profitability. Further, sharp revival in the 2W industry is key for its topline performance. Any failure in the Sunroof project due to lack of technical support from its overseas partner would hamper its growth prospects.

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Rs. crore)	2,972	3,343	3,738	4,075	4,442
Growth (%)	27.4	12.5	11.8	9.0	9.0
AEBITDA (Rs. crore)	214	290	333	416	453
OPM (%)	7.2	8.7	8.9	10.2	10.2
Adj. Net Profit (Rs. crore)	132	185	218	277	301
Growth (%)	47.8	39.9	17.6	27.0	9.0
AEPS (Rs.)	9.2	12.9	15.2	19.3	21.0
P/E (x)	46.9	33.5	28.5	22.4	20.6
P/BV (x)	7.1	6.2	5.2	4.4	3.7
EV/EBITDA (x)	28.2	20.7	18.0	14.4	13.2
ROE (%)	16.2	19.7	19.8	21.2	19.5
ROCE (%)	16.6	20.1	20.2	21.5	19.8

Source: Company; Sharekhan estimates

Q2 FY25

- Segment-wise revenue mix: PVs: 23%, 2W and 3W: 65%, CVs: 10%, Trading: 2%
- Channel-wise revenue mix: Replacement: 88%, OEM: 12%
- Export sales has declined from Rs. 23.7 crore in Q2FY2024 to Rs. 28.5 crore in Q1FY2025
- Capex incurred during the quarter: Rs. 14.4 crore
- Cash flow from operation: Rs. 20.2 crore

Market share status - H1FY2025

- Market share in the 2W segment stood at 30%
- Market share in the 2W EV segment has reached to 87% in Q2FY2025
- Market share in the PV segment stood at 24%
- Market share in the CV segment stood at 88%

Standalone business

- The company has charted a proper road map to achieve double-digit EBITDA margin. The company is targeting to attain double-digit EBITDA margin by FY2026. Beyond achieving double-digit EBITDA margin, the company has been looking to sustain EBITDA margin improvement.
- The company has been looking to launch one more product by the end of FY2025.
- While the CV segment has reported muted performance in H1FY2025, management is looking for a better performance in the CV industry in H2FY2025. Given that it has an 88% market share in the domestic CV industry, management is looking to expand its CV business in overseas markets.
- Management is also looking for an opportunity to expand its railway business in overseas markets.
- The shift in model mix has impacted its PV business, while SOPs for the new Swift are yet to begin.
- The EV business currently contributes 2-3% to its revenue.
- Along with an organic growth path, management continues to look for suitable inorganic growth opportunities.

Sunroof project

- Sunroof project has delivered revenue of Rs. 103.1 crore, EBITDA of Rs. 17.1 crore, and PAT of Rs. 10.2 crore in Q2FY2025 (vs. revenue of Rs. 82.3 crore, EBITDA of Rs. 11.5 crore, and PAT of Rs. 6.4 crore in Q1FY2025). EBITDA margin came at 16.6% in Q2FY2025 against 14% in Q1FY2025.
- Almost 50% of the domestic sunroof demand has been catered by imports, which management assumes would come down to 20% in the next few years.
- Given that the government had earlier rejected the application to form a JV with Inalfa for its Sunroof project, the company has been in process to file the revised application again for a permission to convert the 100% subsidiary (Sunroof project) in a JV with Inalfa.
- Management targets revenue of Rs. 200 crore from the Sunroof project in FY2025 and Rs. 1,000 crore in the next five years.

- Currently, imports constitute 60% in sunroof and the company is targeting 40% import content in the next few years on rise in scale and availability of import substitutes in the domestic market.
- Management assumes 14-16% EBITDA margin is a sustainable margin in the sunroof business.
- Sunroof project has received one new order from export markets and has been looking for an opportunity to participate with the EV project.
- Currently, Sunroof project is paying royalty at a 5% rate, which has been distributed among Gabriel (standalone) and Inalfa. Gabriel accounts the royalty in its other income (standalone).
- Going forward, management is looking for an export opportunity in its sunroof business to geographies where Inalfa does not have a manufacturing set-up in consent with Inalfa.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Net Sales	924.0	864.4	6.9	864.2	6.9
Total operating expenses	844.9	790.7	6.9	786.3	7.5
EBITDA	79.1	73.8	7.3	78.0	1.5
Depreciation	15.8	14.1	11.8	15.3	3.1
Interest	0.7	1.2	(42.2)	0.9	(17.9)
Other Income	7.4	4.6	61.7	7.4	0.8
PBT	70.0	63.0	11.2	69.1	1.3
Tax	17.3	16.1	8.0	17.9	(3.4)
Reported net profit	52.7	47.0	12.2	51.2	3.0
Adjusted net profit	52.7	47.0	12.2	51.2	3.0
Adjusted EPS (Rs.)	3.7	3.3	12.2	3.6	3.0

Source: Company; Sharekhan Research

Key Ratios (Standalone)

Particulars	Q2FY25	Q2FY24	Y-o-Y (bps)	Q1FY25	Q-o-Q (bps)
Gross margin (%)	25.2	24.7	50	25.2	10
EBIDTA margin (%)	8.6	8.5	-	9.0	(50)
Net profit margin (%)	5.7	5.4	30	5.9	(20)
Effective tax rate (%)	24.8	25.5	(70)	26.0	(120)

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 the PV and CV segments are performing well, the 2W 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), 2W, 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 its 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 is aiming to expand in 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. 558

Post reporting inline performance in Q2FY2025, management continues to target for a double-digit EBITDA margin by FY2026, backed by its strategic plans. The company continues to aim to expand its penetration in the overseas markets in the CV and railway segment. The Sunroof project has been progressing well in terms of volume ramp-up and financials. The Sunroof project has delivered an EBITDA margin of 16.6%, an improvement from 14.0% in Q1FY2025. Although its plan to transform the Sunroof project (which is currently under its own wholly owned subsidiary) in a JV company (between Gabriel and Inalfa) has not got the government's clearance, management has indicated the growth plan of the Sunroof project will remain as it is. The Sunroof project will work under the terms of the technical collaboration and alliance agreement executed with Inalfa. Along with that, the company is looking for a suitable inorganic growth opportunity. We maintain our BUY rating on the stock with an unchanged PT of Rs. 558, driven by its strong brand reputation, expansion strategies, profitability focus, anticipated rise in content per vehicle, inorganic growth initiatives, and enhance export potential.

Change in earning estimates

Particulars	Earlier		New		% change		Introduction
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY27E
Revenue	3738	4075	3738	4075	-	-	4442
EBITDA	333	416	333	416	-	-	453
EBITDA margin (%)	8.9	10.2	8.9	10.2			10.2
PAT	218	277	218	277	-	-	301
EPS (Rs.)	15.2	19.3	15.2	19.3	-	-	21.0

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 a 31% market share in the 2W and 3W segments, 23% 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 2W 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 BUY 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 Nilesh Jain	Company Secretary & Compliance Officer
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	9.53
3	Anand Deep	1.49
4	Dimensional Fund Advisors LP	1.02
5	Nippon Life India Asset Management	0.87
6	Union Mutual Fund/India	0.84
7	SBI MF	0.84
8	BlackRock Inc	0.63
9	Anjali singh	0.45
10	Anand Kiran	0.42

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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