Stock Update

Gabriel India Ltd.

December 19, 2022

RETAILRESEARCH

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Gabriel India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 189	Buy in Rs 188-192 band & add more on dips in 164-168 Rs band	Rs 211	Rs 226	2-3 quarters

HDFC Scrip Code	GABINDEQNR
BSE Code	505714
NSE Code	GABRIEL
Bloomberg	GABR IN
CMP Dec 16, 2022	189.2
Equity Capital (Rs cr)	14.4
Face Value (Rs)	1
Equity Share O/S (cr)	14.4
Market Cap (Rs cr)	2717
Book Value (Rs)	57.1
Avg. 52 Wk Volumes	538,400
52 Week High (Rs)	200.9
52 Week Low (Rs)	102.0

Share holding Pattern % (Sep 2022)	
Promoters	55.0
Institutions	13.6
Non Institutions	31.4
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

Gabriel India Ltd. (GIL) is one of the largest players in the automobile suspension component segment in India, with presence across OEMs, aftermarket and export segments, through 12000 retailers in all 6 continents. It has been one of the key beneficiaries of the demand recovery in 2W segment, especially the expanding share of EV 2W. Increasing share of business with existing clients and new orders won by the company has enabled it to consistently grow faster than the industry. Increasing penetration in Tier 2/3 cities and focus on growing after-market sales could drive higher margins in the coming years. The CV industry has also witnessed a strong recovery which is expected to sustain for the next few years. It has gained sustainable market share across segments which augurs well for future growth.

On July 8, 2022, we had initiated coverage on the company (Link) with the recommendation to 'Buy in Rs 132-136 band & add more on dips in Rs 119-123 band' for base case target of Rs 149 and bull case target of Rs 158 over the next 2 quarters. Our bull case target was achieved on August 30, 2022. Looking at the strong H1FY23 performance of the company we have revised our estimates and believe the company has strong growth potential.

Valuation & Recommendation:

GIL witnessed strong sales growth in H1FY23 driven by market share gains and new product launches. We believe the uptick in sales volume could continue as the revival in economic activity could drive higher automobile sales. Revenue growth over the medium term is expected to be in double digits driven by growth in the 2W EV segment, strong demand outlook in both passenger vehicle and commercial vehicle segment, increased contribution from the aftermarket segment and sharp pick up in exports. Margins are expected to be in the range of 7-7.5% over the medium term aided by overall lean cost structure with low fixed costs, continued cost optimization measures being undertaken and increased operating leverage arising from higher scale of operations.

We expect GIL's Revenue/EBITDA/PAT to grow at 22/34/39% CAGR over FY22-FY24E, led by increased demand from existing customers and addition of new clients. We believe investors can buy the stock in Rs 188-192 band and add on dips in Rs 164-168 band (13.75x FY24E EPS) for a base case fair value of Rs 211 (17.5x FY24E EPS) and bull case fair value of Rs 226 (18.75x FY24E EPS) over the next 2-3 quarters.

Financial Summary

(Rs cr)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	FY21	FY22	FY23E	FY24E
Operating Income	803	590	*36.1*	721	*11.4*	1,700	2,332	2,975	3,451
EBITDA	59	43	*37.4*	51	*16.2*	108	146	219	262
APAT	37	25	*46.7*	33	*11.1*	60	90	142	173
Diluted EPS (Rs)	2.5	1.7	*46.6*	2.3	*11.1*	4.2	6.2	9.9	12.1
RoE-%						8.9	12.2	17.3	18.5
P/E (x)						45.1	30.3	19.2	15.7
EV/EBITDA (x)						22.8	17.8	11.2	9.3

(Source: Company, HDFC sec)

Q2FY23 Result Review

GIL reported strong momentum for Q2FY23 with highest quarterly sales numbers. Topline grew by 36% YoY to Rs 803cr led by strong performance across all segments. New product launches and market share gains helped the company to improve its topline. EBITDA increased by 37% YoY to Rs 59cr and EBITDA margin expanded marginally as operating leverage kicked in. On a sequential basis EBITDA margin expanded 31bps to 7.4%. PAT for the quarter came in at Rs 37cr, up 47% YoY while PAT margin expanded 33bps to 4.6%.

Net cash position of GIL stood at Rs 251cr and the company incurred a capex of Rs 47cr in H1FY23 on R&D and capacity enhancement. Capacity utilisation was to the tune of 65-70%.

Key updates

Increasing penetration in aftermarket

GIL continues to increase its penetration in Tier 2/3 cities to drive its aftermarket sales. It has launched its successful retail program Elite in Nepal and looking to expand it to other countries in the subcontinent. The company is also focusing on tyre segment where it had faced challenges earlier and had to change supplier. GIL has launched 109 SKUs in Q2FY23 and more than 1264 SKUs launched in last 5 years. All these measures are likely to drive higher aftermarket sales which is currently recording sales of close to Rs 100cr every quarter. Aftermarket sales have grown by 24% to Rs 195cr in H1FY23.

Capacity expansion to meet increasing demand

GIL has lined up capacity expansion plans at many of its plants to meet increasing customer demand. Higher sales volumes from Maruti, Toyota, Volkswagen, etc. and increasing share of business from customers is driving the need to expand capacities. GIL is also adding furnace to machining centres in order to substitute imports of aluminum front fork from China. It is also evaluating production of sensors and other inorganic opportunities. It has applied for PLI benefits for sensor production & earmarked Rs 40-50cr towards capex over the next 2 years.

Sustainable market share gains

GIL has gained market share of ~700bps in 2W (from 25% to 32%) and ~400bps in CV (from 85% to 89%) as compared to FY22. Gain in 2W market share is primarily on account of EV. The management believes these gains are sustainable as the company is getting continous orders for new products launched by OEM and increasing its share of business in existing products. GIL caters to all the top models in 2W EV segment and have also received orders from Hero Electric in Q2FY23. We believe the volume loss from ICE vehicles will be offset by increasing sales from EV vehicles going forward.

New programs to increase domestic revenues

GIL has won new programs from Maruti Suzuki for its expected launch of Jimny and Stellantis in the passenger vehicle segment. In the CV segment it has added programs - Ashok Leyland-Phoenix, TML Intra and Mahindra New Bolero.

Risks & Concerns

Slowdown in automobile industry

GIL supplies to automobile manufacturers and any slowdown in the automobile industry could impact its growth.

Susceptibility to pricing pressure from OEMs and peers

GIL may not not able to pass on the increase in costs easily to OEMs and remains susceptible to increasing competition in the auto component segment, and pricing pressures from auto OEMs.

Raw material price volatility

Sharp increase in raw material prices could hurt its performance as there is a lag effect in passing on the increase to its clients.

Currency fluctuation

GIL derives ~4% of its revenues from supplies to overseas clients which has been increasing. Any adverse changes in the exchange rate could impact earnings of the company.

High management fees

GIL has paid Rs 46cr of management fees to Anand Automotive Private Limited in FY22 which is ~2% of its net sales and over 50% of its PAT.

Customer concentration

The top five customers are estimated to contribute more than ~50%. This raises the risk of any 1 or 2 customers cutting their purchases from GIL, affecting the revenue growth.

Company Background:

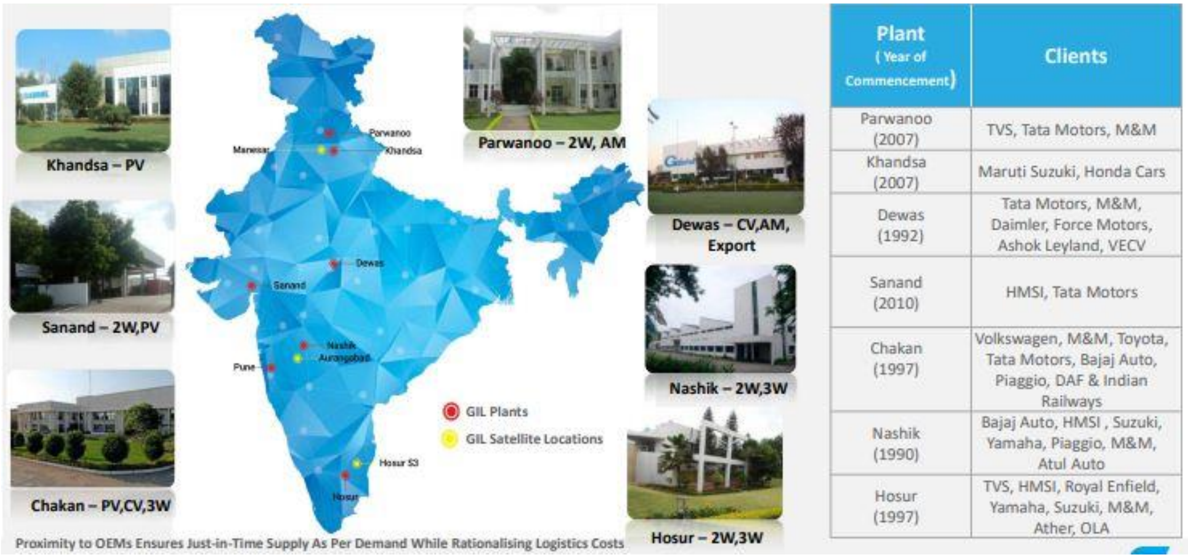
Established in 1961, Gabriel India is the flagship company of New Delhi based Anand Group. It has completed more than 6 decades of manufacturing ride control products in India which include axle dampers, shock absorbers and others like forks covering the wide range of suspension systems and become the most trusted brand for such products. It has grown from strength to strength, starting from a single product company to manufacturing more than 500 models across every automotive segment, ranging from 2W to Railways.

The credibility of Gabriel's product portfolio is cemented by the fact that various multinational OEMs in India recommend and supply Gabriel India products to their counterparts across the globe. In 2021, GIL made it to the top of the list of Fortune India – The Next 500 companies for the year 2021 in the mid-size category.

GIL has 7 manufacturing plants in close proximity to OEMs, ensuring Just-in-time supply as per demand while rationalising logistics costs. The company claims best-in-class R&D facilities in the country with 60 specialists providing customized solutions, which is highest in the industry. It has end-to-end capabilities from design, development, testing and validation. GIL is the leader in aftermarket for ride control products with a strong brand recall and a market share of >40% in India and a logistics network comprising 664 distributors and 12,000 retailers as of FY22. Longstanding technical tie-ups with global players, such as Yamaha Motor Hydraulic System Co Ltd, KYB Spain, and Kayaba Industry Co, enhance product development capabilities.

Strategic manufacturing footprint

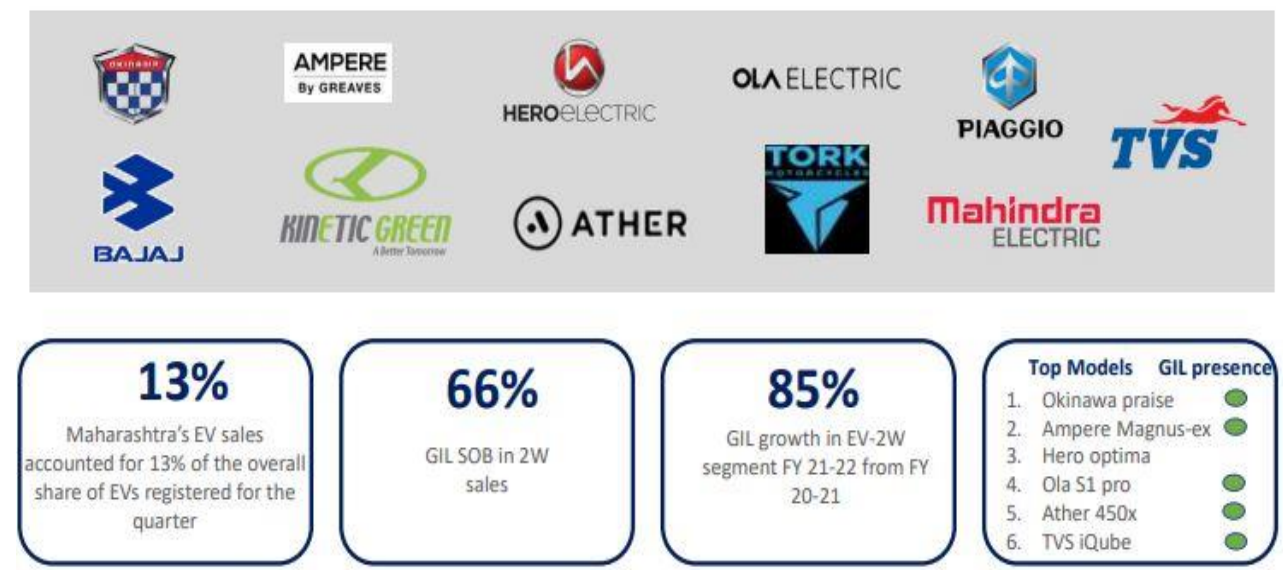
Plant Location	Segment Served	Commencement Year	Products	Clients
Nashik	2W / 3W	1990	Shock absorbers, front forks	Bajaj Auto, HMSI , Suzuki, Yamaha, Piaggio, M&M, Atul Auto
Hosur	2W / 3W	1997	Shock absorbers, front forks	TVS, HMSI, Royal Enfield, Yamaha, Suzuki, M&M, Ather, OLA
Parwanoo	2W, PV, CV, Aftermarket	2007	Shock absorbers, front forks, struts	TVS, Tata Motors, M&M
Chakan	PV, Railways &2W	1997	Shock absorbers, struts	Volkswagen, M&M, Toyota, Tata Motors, Bajaj Auto, Piaggio, DAF & Indian Railways
Khandsa	PV	2007	Shock absorbers, struts	Maruti Suzuki, Honda Cars
Sanand	2W, PV	2010	Shock absorbers, struts (final assembly)	HMSI, Tata Motors
Dewas	OE, Aftermarket and Exports	1992	Shox – Commercial Vehicles	Tata Motors, M&M, Daimler, Force Motors, Ashok Leyland, VECV



(Source: Company, HDFC Sec)

ANAND is a global leader in the manufacturing of world-class products for the automotive industry. The group also offers experiential luxury through the hospitality vertical, SUJÁN. In the automotive industry it offers a wide range of Automotive Systems and Components through enduring partnerships built over six decades. The group has 20 companies, 13 joint venture companies and 7 technical collaborations with manufacturing at 60 locations and employing ~14,000 people.

Well entrenched among all 2W/3W EV players



Railways presence

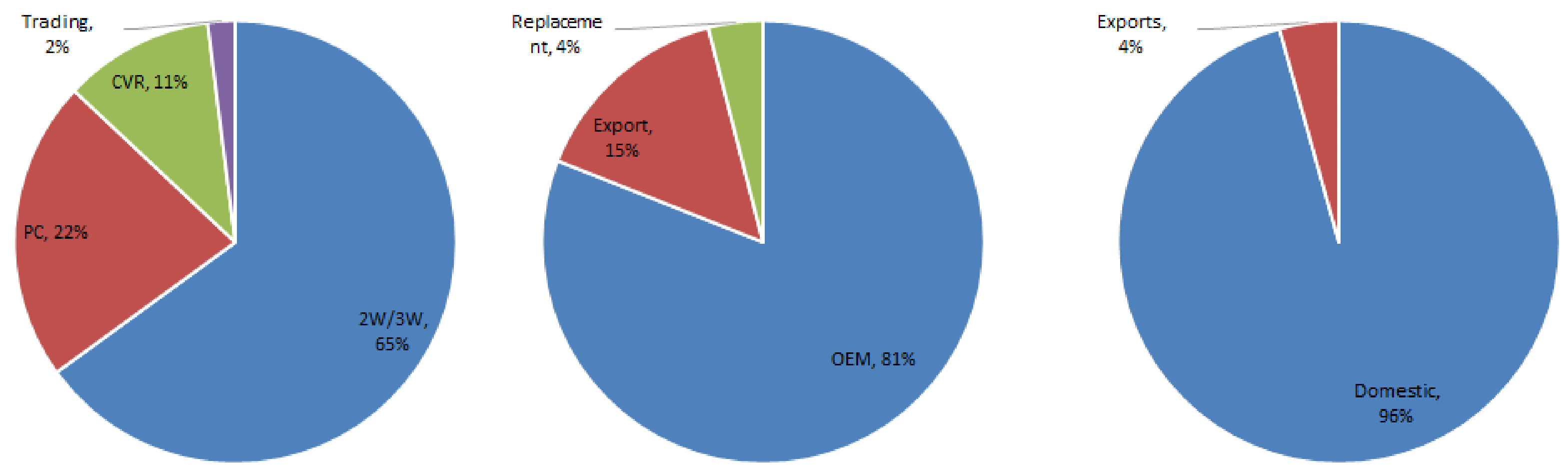
(Source: Company, HDFC Sec)

The company supplies its products to all the marquee clients including Bajaj, Honda, Royal Enfield, Yamaha, TVS amongst 2W; Atul Auto, Piaggio amongst 3W; Maruti, Honda, Tata, Toyota, Mahindra, Volkswagen, Skoda, etc amongst 4W, and Ashok Leyland, Tata, Isuzu, Force, Daimler, etc amongst commercial vehicles and also Indian Railways.

Relationship with Marquee OEM customer base

(Source: Company, HDFC Sec)

Revenue breakup (FY22)



(Source: Company, HDFC Sec)

Financials

Income Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**1870**	**1700**	**2332**	**2975**	**3451**
Growth (%)	***-9.9***	***-9.1***	***37.2***	***27.6***	***16.0***
Operating Expenses	1732	1592	2186	2756	3188
EBITDA	**138**	**108**	**146**	**219**	**262**
Growth (%)	***-22.5***	***-21.9***	***35.6***	***49.8***	***19.9***
EBITDA Margin (%)	***7.4***	***6.3***	***6.3***	***7.3***	***7.6***
Depreciation	44	42	41	46	50
Other Income	10	19	26	24	28
EBIT	**104**	**84**	**131**	**197**	**239**
Interest expenses	4	7	4	5	6
PBT	**100**	**78**	**126**	**191**	**234**
Tax	16	18	37	50	60
PAT	**85**	**60**	**90**	**142**	**173**
Growth (%)	***-10.8***	***-28.9***	***48.5***	***58.4***	***22.2***
EPS	5.9	4.2	6.2	9.9	12.1

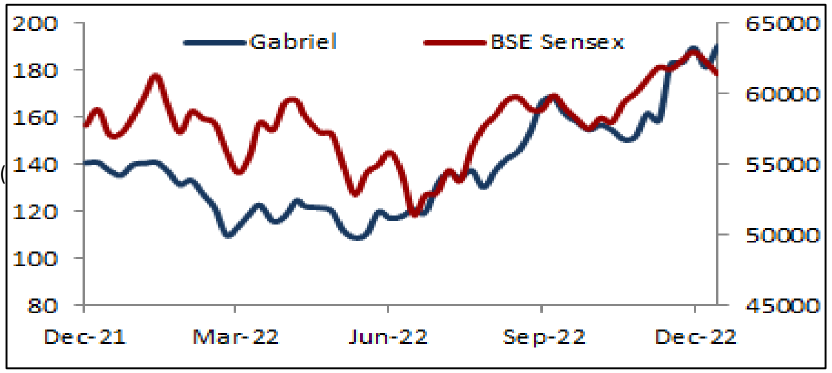
Balance Sheet

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS					
Share Capital	14	14	14	14	14
Reserves	637	682	752	860	990
Shareholders' Funds	**652**	**696**	**767**	**874**	**1004**
Total Debt	8	13	13	9	6
Net Deferred Taxes	8	11	14	14	14
Other Non-curr. Liab.	6	6	0	0	0
Total Sources of Funds	**673**	**725**	**794**	**897**	**1025**
APPLICATION OF FUNDS					
Net Block & Goodwill	349	353	385	445	514
CWIP	20	28	20	10	5
Investments	35	15	84	109	159
Other Non-Curr. Assets	99	37	39	50	58
Total Non Current Assets	**503**	**433**	**529**	**614**	**737**
Inventories	156	196	210	287	347
Debtors	233	294	382	458	564
Cash & Equivalents	57	255	55	177	137
Other Current Assets	24	32	177	42	48
Total Current Assets	**470**	**777**	**824**	**963**	**1097**
Creditors	219	391	476	547	653
Other Current Liab & Provisions	81	93	83	133	155
Total Current Liabilities	**300**	**485**	**559**	**680**	**809**
Net Current Assets	170	293	265	283	288
Total Application of Funds	**673**	**725**	**794**	**897**	**1025**

Cash Flow Statement

(Rs cr)	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	100	78	126	191	234
Non-operating & EO items	-3	-6	-14	-11	-8
Interest Expenses	-1	-5	4	5	6
Depreciation	44	42	41	46	50
Working Capital Change	10	87	-30	104	-45
Tax Paid	-30	8	-32	-50	-60
OPERATING CASH FLOW (a)	**120**	**204**	**96**	**286**	**176**
Capex	-59	-52	-77	-95	-115
Free Cash Flow	61	153	19	191	61
Investments	14	20	-66	-25	-50
Non-operating income	-51	-60	99	0	0
INVESTING CASH FLOW (b)	**-96**	**-92**	**-44**	**-120**	**-165**
Debt Issuance / (Repaid)	0	0	0	-4	-3
Interest Expenses	-4	-7	-3	-5	-6
FCFE	20	106	49	157	3
Share Capital Issuance	0	0	0	0	0
Dividend	-20	-15	-18	-34	-43
Others	-4	0	-3	0	0
FINANCING CASH FLOW (c)	**-24**	**-22**	**-21**	**-44**	**-51**
NET CASH FLOW (a+b+c)	**0**	**91**	**31**	**122**	**-40**

Price chart



Key Ratios

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)					
EBITDA Margin	7.4	6.3	6.3	7.3	7.6
EBIT Margin	5.6	5.0	5.6	6.6	6.9
APAT Margin	4.5	3.5	3.8	4.8	5.0
RoE	13.6	8.9	12.2	17.3	18.5
RoCE	16.5	12.3	17.6	23.6	25.3
Solvency Ratio (x)					
Net Debt/EBITDA	-0.4	-2.3	-0.3	-0.8	-0.5
Net D/E	-0.1	-0.3	-0.1	-0.2	-0.1
PER SHARE DATA (Rs)					
EPS	5.9	4.2	6.2	9.9	12.1
CEPS	8.9	7.1	9.1	13.1	15.6
BV	45.4	48.5	53.4	60.9	69.9
Dividend	1.3	0.9	1.6	2.4	3.0
Turnover Ratios (days)					
Debtor days	51	57	53	52	54
Inventory days	31	38	32	30	34
Creditors days	47	66	68	63	63
VALUATION					
P/E	32.1	45.1	30.3	19.2	15.7
P/BV	4.2	3.9	3.5	3.1	2.7
EV/EBITDA	19.1	22.8	17.8	11.2	9.3
EV / Revenues	1.4	1.4	1.1	0.8	0.7
Dividend Yield (%)	0.7	0.5	0.8	1.3	1.6
Dividend Payout (%)	22.0	21.4	24.9	24.3	24.9

(Source: Company, HDFC sec)

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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