

**Gabriel India Ltd.****OUTPERFORM**

Outstanding performance in tough times

- During the quarter GIL delivered healthy performance on all fronts. Revenue for the quarter grew by 5.3% QoQ to Rs.7.2bn owing to improving market share with customers, development of new products, and healthy growth in the aftermarket. Commodity correction from customers and lower other expenditures boosted the margin to 7.1% jumped (+154bps QoQ). Operating profit increased by 35% QoQ to Rs.509mn. RPAT grew 22.3% QoQ to Rs.329mn.
- Management expects RM moderation benefits to flow in the coming quarter. If all commodity prices reverse to the previous level, the margin would rebound to the level of 9%. Additionally, product mix would be another lever for margin expansion.
- Demand for EVs is very strong however, penetration was less than 1%. Increasing fuel price in another catalyst pushing EV sales.
- In PLI scheme, the company will enter into the sensor segment. Recently, the company completed the market mapping exercise for the sensor segment. It would take around 1-2 quarters for the company to conclude on the foray. The company is also in discussion with the technology partner for PLI scheme.
- Addition of new clients in the EV space to drive the top line growth:** In the current scenario, penetration of E-2W is at a very nascent stage and is in the lower single-digit. However, the company has not disregarded this opportunity and is actively developing products for OLA Electric, Okinawa, Ather Energy, Bajaj Auto, and M&M. Due to its product design capabilities, it has an order book of Rs.2.5bn from Hero Electric, and production for the same will start from Oct-22. Going forward, GIL expects to benefit from the EV transition, and any volume loss from ICE vehicles will be offset by increasing EV sales.
- Healthy market positioning and diversified customer base:** GIL is one of the largest players in the automobile suspension segment in India, with a presence across OEMs, aftermarket and export segments, through 20k+ retailers network. The contribution of the 2W / 3W, PV, CV, and trading segments is 65%, 22%, 12%, and 1% respectively. Additionally, it has a strong presence in the aftermarket segment (15% of revenues of FY22), and improving exports reduces the risk of client concentration.
- Outlook & Valuation:** We believe GIL has promising growth prospects, given that: 1) It will be a key beneficiary of demand recovery in the 2W segment; 2) Its well-diversified product portfolio; 3) Upcycle in the CV segment is anticipated as LCV growth outlook is positive; 4) Steady revenue visibility in the aftermarket; 5) Increasing share of business in PV segment; and 6) Winning new orders from E-2W OEM (with 60% share of business). We **maintain OUTPERFORM rating** on GIL with a TP of Rs.171, based on 18x PE multiple on FY24E EPS.

**Financial Snapshot**

Year end: March	FY21	FY22	FY23E	FY24E
Revenue (INR Mn.)	16,948	23,320	29,006	32,642
Gross Profit (INR Mn.)	4,296	5,457	7,397	8,487
EBITDA (INR Mn.)	1,025	1,459	1,943	2,383
EBITDA Margin (%)	6.0	6.3	6.7	7.3
EPS (INR)	4.2	6.2	7.4	9.5

Source: Company, Choice Institutional Equities Research

**Choice**

Aug 9, 2022

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<b>CMP (Rs)</b>	<b>142</b>
<b>Target Price (Rs)</b>	<b>171</b>
<b>Potential Upside (%)</b>	<b>20.4</b>

**Company Info**

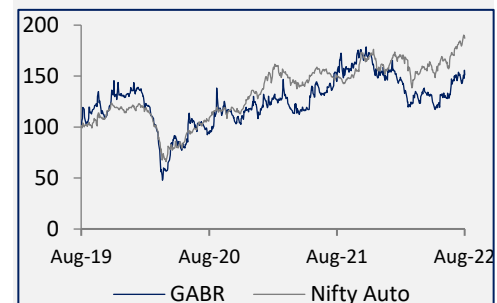
BB Code	GABR IN EQUITY
ISIN	INE524A01029
Face Value (Rs.)	1.0
52 Week High (Rs.)	168.0
52 Week Low (Rs.)	102.4
Mkt Cap (Rs bn.)	20.4
Mkt Cap (\$ bn.)	0.3
Shares o/s (Mn.)/F. Float (%)	143.6/44
TTM EPS (Rs)	7.7
EPS FY24E (Rs)	9.5

**Shareholding Pattern (%)**

	Jun-22	Mar-22	Dec-21
Promoters	55.0	55.0	55.0
FII's	1.4	1.3	1.2
DII's	9.2	9.2	7.3
Public	34.4	34.5	36.5

**Relative Performance (%)**

YTD	3Y	2Y	1Y
Nifty Auto	88.8	78.4	24.9
GABR	47.9	56.1	(0.8)

**Rebased Price Performance****Kripashankar Maurya, AVP**

kripashankar.maurya@choiceindia.com  
Ph: +91 22 6707 9949

**CA Yogesh Soni**

Email: yogesh.soni@choiceindia.com  
Ph: +91 22 6707 9919

## Quarterly performance

Particulars	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
<b>Net Sales (incl OOI)</b>	<b>7,209</b>	<b>4,536</b>	<b>58.9</b>	<b>6,843</b>	<b>5.3</b>
Material Expenses	5,517	3,395	62.5	5,334	3.4
Gross Profit	1,692	1,141	48.3	1,510	12.1
Employee Expenses	441	393	12.2	420	5.0
Other Operating Expenses	743	498	49.1	712	4.3
<b>EBITDA</b>	<b>509</b>	<b>250</b>	<b>103.5</b>	<b>377</b>	<b>34.8</b>
Depreciation	112	99	12.4	107	4.5
<b>EBIT</b>	<b>397</b>	<b>151</b>	<b>163.5</b>	<b>271</b>	<b>46.7</b>
Other Income	61	27	127.9	108	(43.3)
Interest Cost	14	20	(30.0)	2	714.9
<b>PBT</b>	<b>445</b>	<b>158</b>	<b>181.3</b>	<b>377</b>	<b>17.9</b>
EO Items (Adj For Tax)	-	-	-	-	-
Tax	116	38	203.7	108	7.1
<b>RPAT</b>	<b>329</b>	<b>120</b>	<b>174.3</b>	<b>269</b>	<b>22.3</b>
<b>APAT</b>	<b>329</b>	<b>120</b>	<b>174.3</b>	<b>269</b>	<b>22.3</b>
<b>Adj EPS (Rs)</b>	<b>2.3</b>	<b>0.8</b>	<b>174.3</b>	<b>1.9</b>	<b>22.3</b>

Margin Analysis	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross Margin (%)	23.5	25.2	(168.1)	22.1	141.3
Employee Exp. % of Sales	6.1	8.7	(254.4)	6.1	(2.2)
Other Op. Exp % of Sales	10.3	11.0	(68.0)	10.4	(10.5)
EBITDA Margin (%)	7.1	5.5	154.4	5.5	154.1
Tax Rate (%)	26.0	24.1	191.0	28.6	(262.6)
APAT Margin (%)	4.6	2.6	191.9	3.9	63.1

Source: Company, Choice Institutional Equities Research

## Changes in Estimates

Income Statement (INR Mn.)	FY23E			FY24E		
	New	Previous	Dev. (%)	New	Previous	Dev. (%)
Net sales	29,006	29,006	-	32,642	32,642	-
EBITDA	1,943	1,943	-	2,383	2,350	1.4
EBITDA margin(%)	6.7	6.7	-	7.3	7.2	10bps
APAT	1,345	1,376	(2.2)	1,675	1,680	(0.3)
EPS	7.4	7.6	(2.2)	9.5	9.5	(0.3)

Source: Company, Choice Institutional Equities Research

## Management Call - Highlights

- Revenue growth was healthy led by increasing share of business with clients and commodity correction (impact 10%).
- Q1FY23 was better, however increasing RM prices and supply issue is still a concern. The PV segment is doing well due to easing of semiconductor crises and increasing shift to higher versions of vehicle like SUV. 2W segment is still dampening (commuter segment) due to price and increase in fuel cost. The CV segment is doing well due to higher government spending. Expect 2W segment to see revival in the coming festive season. The semiconductor scenario is improving, EVs are witnessing healthy growth in 2W, and Buses (CV).
- Net cash position of Rs.50mn and capex for the Q1 was Rs.213mn
- The overall margin improvement was due to price correction and expect RM moderation benefits to flow in the coming quarters. If all commodity prices reverse to the previous level, margin would rebound to 9% or so. Additionally, product mix would be another lever for margin expansion.
- Future acquisition may be towards backward integration, lighting segment etc. in Domestic and international market. The acquisition would be more on the strategic front rather only investor side.

### 2&3W segment

- Okinawa production has already started, and Hero electric production is to start from Oct-22 onwards.
- Share of business with E-2W clients has increased to 60% in registered EVs. Low-speed vehicles mostly gets assembled parts from China and the company is not catering to low-speed E-2W.
- OLA production has currently slowed down due to component shortage.
- Shock absorber margin in E-2W is better than ICE-2W vehicle.
- The company has a first mover advantage in the E-2W space, and expects to maintain the market share.

### PV segment

- The company won a new program with Maruti named YXA and in CV a new program from M&M's New Bolero.
- The company has bagged order for New Alto as well.
- For Stellantis, company got product development for the electric version of CC21.
- The company has 100% share of business with New Thar (both model) and XUV 700. In XUV700, company has introduced a new product which will help to achieve margin.
- Expect PV segment share to increase from 22% to 25% going forward.

### CV segment

- Recovery visible in BUS segment, expects to see healthy growth due to new launches and new product development.

### Aftermarket segment

- Company launches new products in aftermarket and also took a price hike.
- The company achieved the highest ever aftermarket sale and is adding a new product line beyond suspension.

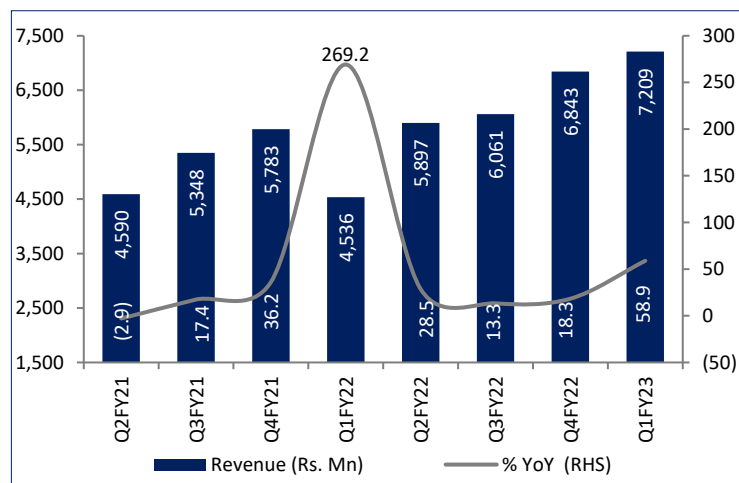
### Export segment

- Growth momentum slowed down due to shut down of VW Russian plant. Expect the plant to restart from Q3FY23. Exposure to Russia is around 25% of export revenue. Order from Netherland and Brazil is healthy and strong.

### Others

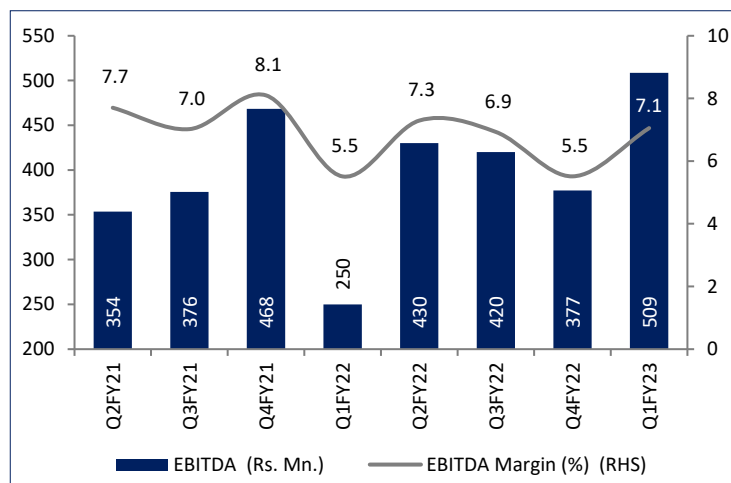
- Overall benefit of core 90 is around 100bps till date.

## Revenue at record high



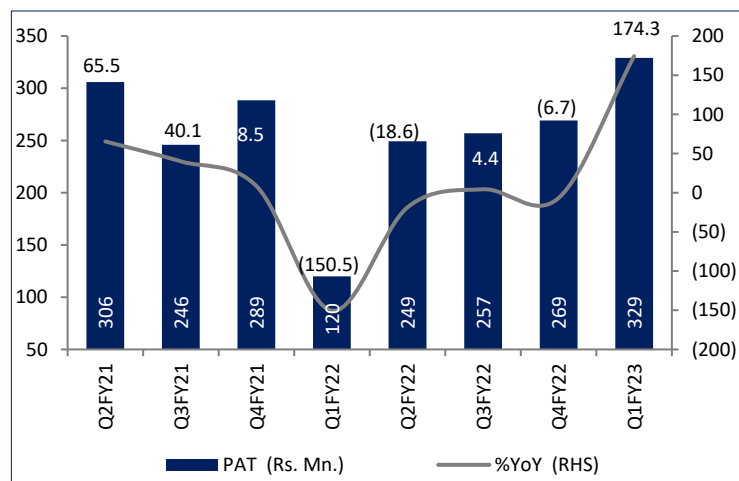
Source: Company, Choice Institutional Equities Research

## EBITDA margin grew QoQ



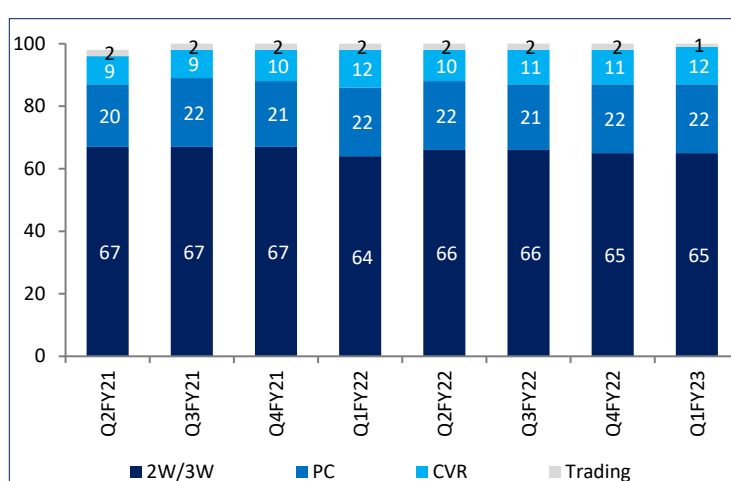
Source: Company, Choice Institutional Equities Research

## PAT



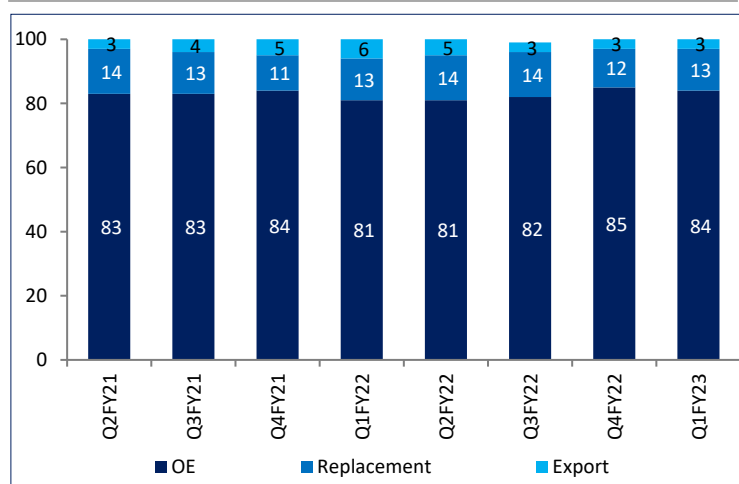
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## Segment Mix (%)



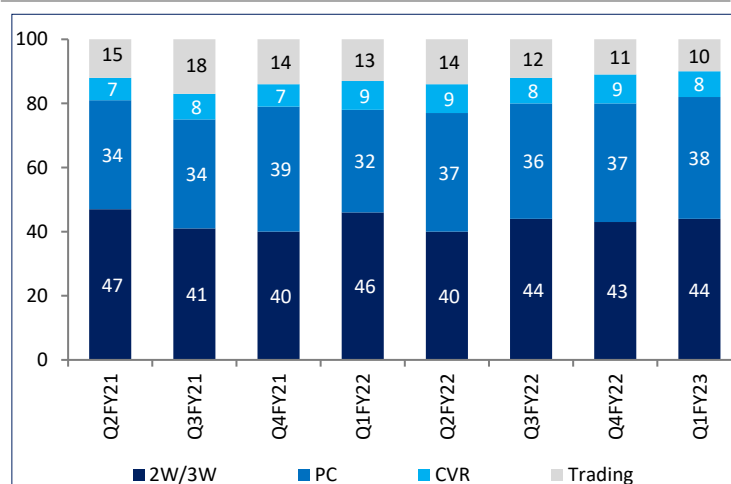
Source: Company, Choice Institutional Equities Research

## Channel Mix (%) aftermarket share improving



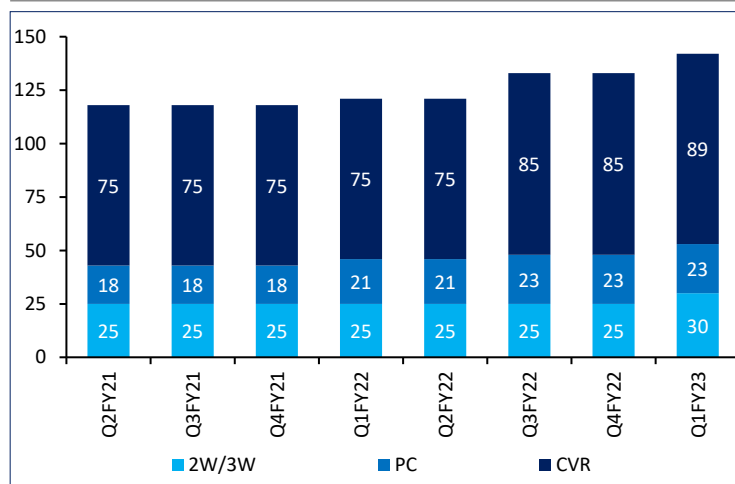
Source: Company, Choice Institutional Equities Research

## Aftermarket Mix (%)



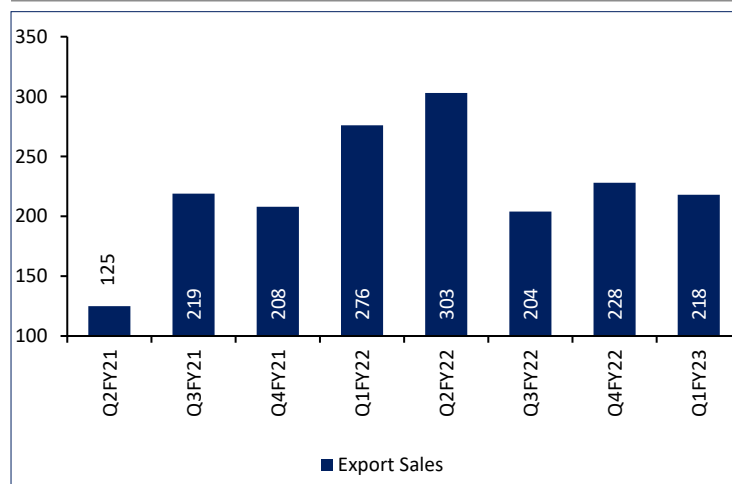
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## Market Share (%)



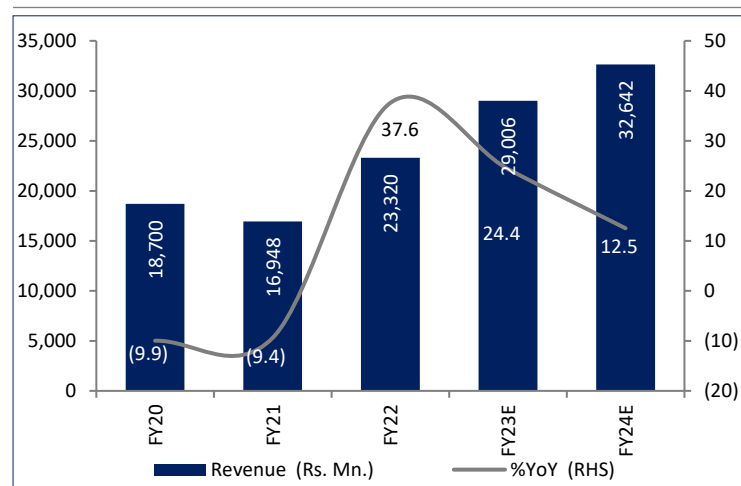
Source: Company, Choice Institutional Equities Research

## Export Sales were impacted due to VW (Russia) slowdown



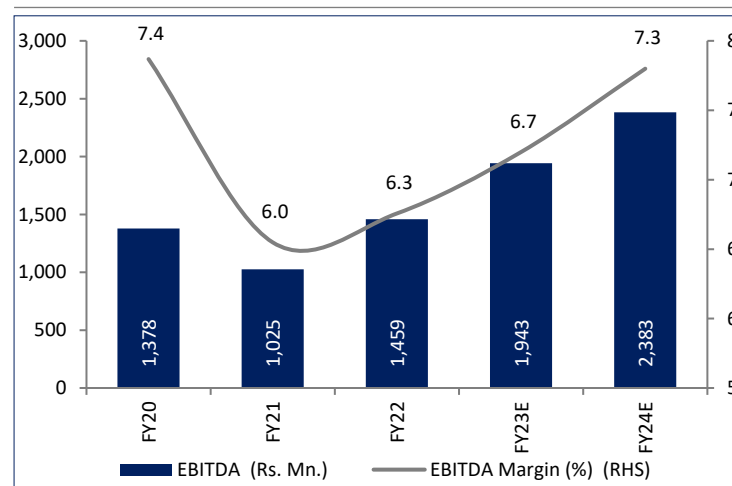
Source: Company, Choice Institutional Equities Research

## Revenue to grow led by 2W recovery



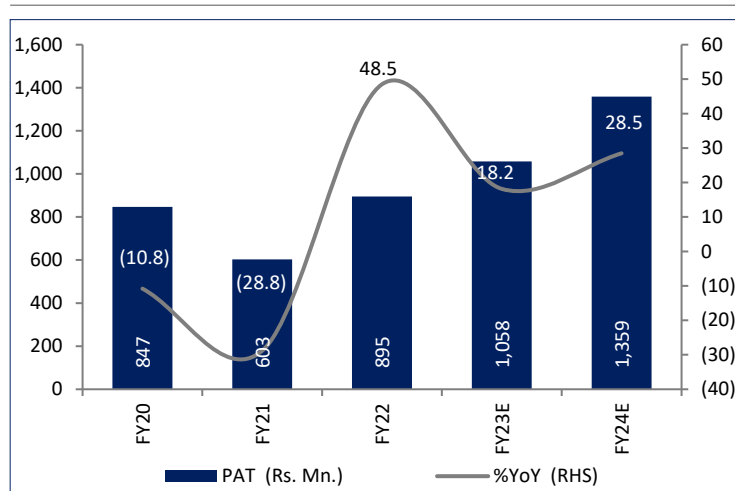
Source: Company, Choice Institutional Equities Research

## EBITDA margin to improve led by Oplev



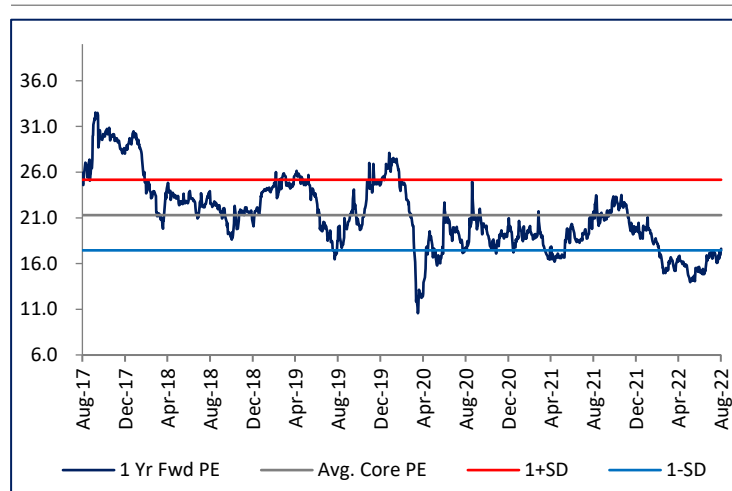
Source: Company, Choice Institutional Equities Research

## PAT &amp; YoY growth (%)



Source: Company, Choice Institutional Equities Research

## 1 Year Forward PE Band (x)



Source: Company, Choice Institutional Equities Research

## Income statement (Consolidated in INR Mn.)

Particular	FY21	FY22	FY23E	FY24E
Revenue	16,948	23,320	29,006	32,642
Gross profit	4,296	5,457	7,397	8,487
EBITDA	1,025	1,459	1,943	2,383
Depreciation	424	414	483	521
EBIT	601	1,046	1,461	1,862
Interest Expense	65	43	41	38
Other Income	243	262	288	317
Extraordinary item	-	-	-	-
Reported PAT	603	895	1,345	1,675
Adjusted PAT	603	895	1,345	1,675
EPS (Rs)	4.2	6.2	7.4	9.5
NOPAT	465	740	1,151	1,458

## Balance sheet (Consolidated in INR Mn.)

Particular	FY21	FY22	FY23E	FY24E
Net worth	6,963	7,668	8,582	9,797
Minority Interest	-	-	-	-
Deferred tax	105	145	145	145
Total debt	129	111	107	100
Other liabilities & provisions	194	148	148	148
<b>Total Net Worth &amp; liabilities</b>	<b>7,392</b>	<b>8,071</b>	<b>8,981</b>	<b>10,189</b>
Net Fixed Assets	3,367	3,720	4,237	4,267
Capital Work in progress	277	203	203	203
Investments	173	859	866	870
Cash & bank balance	910	546	241	1,224
Loans & Advances & other assets	509	507	629	708
Net Current Assets	3,066	2,782	3,045	4,141
<b>Total Assets</b>	<b>7,392</b>	<b>8,071</b>	<b>8,981</b>	<b>10,189</b>
Capital Employed	7,092	7,779	8,689	9,897
Invested Capital	6,182	7,233	8,448	8,673
Net Debt	(781)	(435)	(134)	(1,124)
FCFF	2,051	194	300	1,571

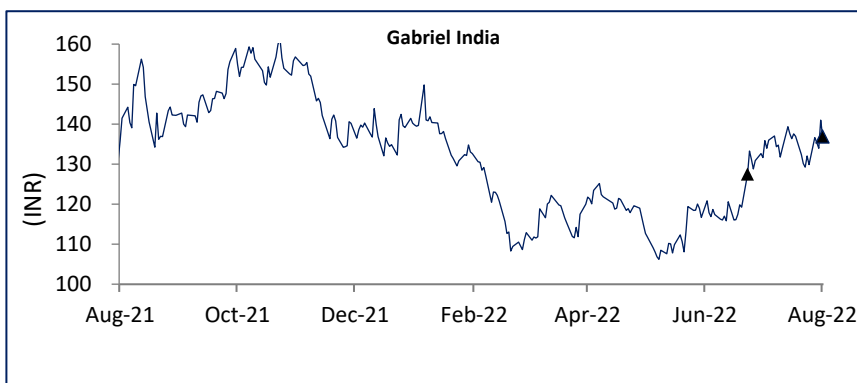
Source: Company, Choice Institutional Equities Research

Cash Flows (INR Mn.)	FY21	FY22	FY23E	FY24E
CFO	2,043	965	1,300	2,121
Capex	8	(770)	(1,000)	(550)
FCFF	2,051	194	300	1,571
CFI	(919)	(442)	(1,007)	(554)
CFF	(217)	(241)	(189)	(189)

Ratio Analysis	FY21	FY22	FY23E	FY24E
<b>Growth Ratios (%)</b>				
Revenue	(9.4)	37.6	24.4	12.5
EBITDA	(25.6)	42.3	33.2	22.6
PAT	(28.8)	48.5	18.2	28.5
<b>Margin ratios (%)</b>				
EBITDA Margins	6.0	6.3	6.7	7.3
PAT Margins	3.6	3.8	4.6	5.1
<b>Performance Ratios (%)</b>				
OCF/EBITDA (X)	2.0	0.7	0.7	0.9
OCF/IC	33.1	13.3	15.4	24.5
RoE	8.7	11.7	15.7	17.1
ROCE	8.5	13.4	16.8	18.8
RoIC (Post tax)	7.7	12.0	15.9	17.3
ROIC (Pre tax)	10.0	16.9	20.2	22.0
<b>Turnover Ratios (days)</b>				
Inventory	42	33	31	30
Debtors	60	60	59	57
Payables	84	75	72	70
Cash Conversion Cycle	46	35	35	35
<b>Financial Stability ratios (x)</b>				
Net debt to Equity	(0.1)	(0.1)	(0.0)	(0.1)
Net debt to EBITDA	(0.8)	(0.3)	(0.1)	(0.5)
Interest Cover	9.2	24.5	35.5	48.4
<b>Valuation metrics</b>				
Fully diluted shares (mn)	144	144	144	144
Price (Rs)	142	142	142	142
Market Cap (Rs. Mn)	20,397	20,397	20,397	20,397
PE(x)	34	23	19	15.0
EV (Rs.mn)	19,616	19,963	20,264	19,273
EV/EBITDA (x)	19	14	10	8
Book value (Rs/share)	48	53	60	68
Price to BV (x)	2.9	2.7	2.4	2.1
EV/OCF (x)	10	21	16	9

Source: Company, Choice Institutional Equities Research

## Historical recommendations and target price: Gabriel India Ltd.



### Gabriel India Ltd.

1. 25-07-2022 Outperform, Target Price Rs. 171
2. 09-08-2022 Outperform, Target Price Rs. 171

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<b>OUTPERFORM</b>	The security is expected to generate more than 15 returns over the next 12 months
<b>ADD</b>	The security is expected to generate greater than 5 to less than 15 returns over the next 12 months
<b>NEUTRAL</b>	The security expected to show downside or upside returns by 5 over the next 12 months
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