

Q2FY24 Update | Automobile | 3 November 2023

Gabriel India Ltd.

Favourably positioned as key clients in ICE & EV gaining market share!

A slight miss in Q2 as margins were lower than expectation due to poor mix. However, reported highest quarterly Revenue/EBITDA/PAT in Q2 with strong FCF generation in H1. The company has been outperforming the auto industry growth since multi-quarters, and this traction should continue as its key clients in 2W ICE/EV & PV has been gaining share, and Gabriel has been winning new orders. The combination of 1) high margin FSD tech in PVs, 2) growing % contribution from 2W EVs, 3) CORE90 program benefits, 4) expectation of getting compensation from PV OEMs, 5) winning new business in high margin SUVs, and 6) operating leverage benefits will keep improving its margin in the coming quarters/years ahead. Sunroof business to add new wings to fly higher, more new techno-agnostic product additions are on cards to keep driving earnings. We are strongly convinced of the company's competitive position, and is well placed for the mid-to-long term growth opportunities. It's a debt-free and has always generated positive cash flows in the last 11 years. The stock is trading at P/E of 18.3x Sept 2025 estimated EPS of Rs 18.6. Gabriel has strong growth prospects with healthy return profile, we have assigned a multiple of 22x to its Sept 2025 estimated EPS to arrive at a fair value of Rs 409 a piece. Our estimates largely remain intact. Maintain BUY!

Q2FY24 result analysis – reported highest quarterly Revenue/EBITDA/PAT

- The result is slightly lower than our estimates, however internal metrics looking strong due to strong FCF generation & double-digit PAT growth in Q2FY24 & H1FY24.
- Revenue/EBITDA/PAT was lower than our estimates by ~2%/6%/6% to Rs 8,644mn/738mn/470mn respectively. Gabriel reported its highest quarterly Revenue, EBITDA and PAT in Q2FY24.
- The industry in Q2 reported ~1% YoY growth vis-a-vis Gabriel's revenue growth of ~8% for the same period. **It has been outperforming industry since multi-quarters now.**
- Margin miss vs. our estimates was on account of** 1) higher mix of low margin PV business (+300bps YoY to 25% of revenue), 2) drop in high margin 2W business (-400bps YoY to 61%) & Exports business (-38bps YoY to 2.7%).
- FCF substantially increased from negative Rs 130mn in H1FY23 to positive Rs 338mn in H1FY24. Declared interim dividend of Rs 1.50 per share.

Y/E Mar (Rs mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	Q2 FY24e	Var. (%)
Revenue	8,644	8,029	7.7	8,058	7.3	8,832	(2.1)
Gross margin (%)	24.7	23.0	173 bps	25.2	(49) bps	-	-
EBITDA	738	591	24.8	690	6.9	788	(6.4)
EBITDA margin (%)	8.5	7.4	117 bps	8.6	(3) bps	8.9	(39) bps
Other income	46	29	55.9	46	(1.4)	-	-
PBT	630	492	28.0	577	9.2	-	-
Taxes paid	161	127	26.9	152	5.6	-	-
Effective tax rate (%)	25.5	25.7	(23) bps	26.3	(87) bps	-	-
Reported PAT	470	366	28.4	425	10.5	499	(5.8)
PAT margin (%)	5.4	4.6	88 bps	5.3	16 bps	5.6	(21) bps

Source: Company, SMIFS research

Y/E Mar (Rs Mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	PAT	YoY (%)	EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY22	23,320	37.6	1,459	6.3	895	48.5	6.2	12.2	12.4	21.1	12.1
FY23	29,717	27.4	2,137	7.2	1,324	47.9	9.2	16.2	16.3	16.2	9.2
FY24e	34,332	15.5	3,000	8.7	1,903	43.8	13.2	19.0	19.1	25.7	15.4
FY25e	39,281	14.4	3,609	9.2	2,323	22.1	16.2	18.1	18.0	21.1	12.2
FY26e	45,415	15.6	4,377	9.6	3,023	30.1	21.0	18.5	17.6	16.2	9.4

Source: Company, SMIFS research estimates

Rating: **BUY** Upside/(Downside): **20.1%**Current Price: **341**Target Price: **409**

| Earlier recommendation

Previous Rating: Buy

Previous Target Price: 409

| Market data

Bloomberg:	GABR: IN
52-week H/L (Rs):	359/130
Mcap (Rs bn/USD mn):	49.0/0.6
Shares outstanding (mn):	143.6
Free float:	44.0%
Avg. daily vol. 3mth:	1.1mn
Face Value (Rs):	1.0

Source: Bloomberg, SMIFS research

| Shareholding pattern (%)

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	55.0	55.0	55.0	55.0
FII's	3.0	2.7	2.9	2.6
DII's	11.7	10.9	11.1	11.2
Public/others	30.3	31.4	31.0	31.2

Source: BSE

| Promoters Pledging (%)

Promoters pledged shares	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
Nifty 50	-1.5	-0.8	6.5	62.8
Nifty 500	-1.5	1.4	10.0	75.3
GABR	3.3	51.5	118.9	268.3

*as on 03rd Nov, 2023; Source: AceEquity, SMIFS research

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Outperformance to sustain as key clients in ICE & EV gaining market share

- Gabriel has been outperforming auto industry growth since multi-quarters now driven by higher growth by its core customers, price increases & rebound in CV segment.
- **It's top clients include** TVS ICE (gained share in Q2 by +142bps YoY to 18.8%), Maruti Suzuki (+85bps YoY to 41.9%), and M&M (+145bps YoY to 9.4%) gained share YoY basis in Q2FY24.
- **Similarly, within 2W EVs**, Ola Electric (+2001bps YoY to 31.3%), Ather Energy (+305bps YoY to 11.6%), and TVS EV (+1316bps YoY to 22.9%) gained retail market share.
- **The company increased 2W EV market share from 73% in Q1FY24 to 81% in H1FY24.**
- We believe the revenue outperformance to sustain in the coming years as 1) Gabriel has been winning new orders from existing/new clients, 2) key OEMs have aggressive product launch plans, and 3) continued strong show in the CV & Railways industry.

Margin upward journey begins

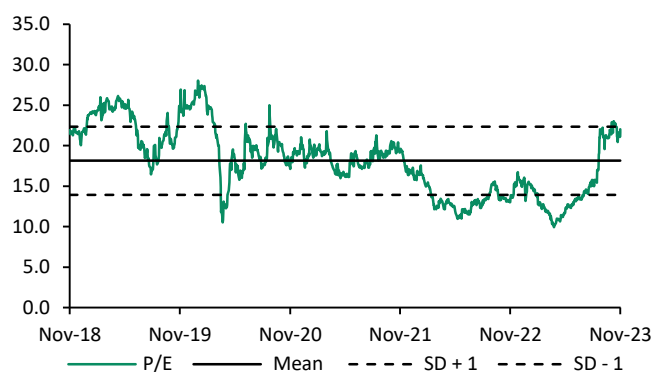
- Gabriel in the past eleven quarters (Q2FY21 to Q4FY23) clocked average EBITDA Margin of 6.9%, which inched-up to 8.5-8.6% level in the recent past two quarters.
- **The combination of** 1) high margin FSD tech in PVs, 2) growing % contribution from 2W EVs, 3) CORE90 program benefits, 4) expectation of getting compensation from PV OEMs, 5) winning new business in high margin SUVs, and 6) operating leverage benefits will keep improving its margin in the coming quarters/years ahead.
- **The management has a clear blueprint to take EBITDA Margin to double-digit level.**
- We believe 8.7% is doable in FY24e, and anticipated this to touch 9.6% in FY26e.

Sunroof is just a start, will add a few more products

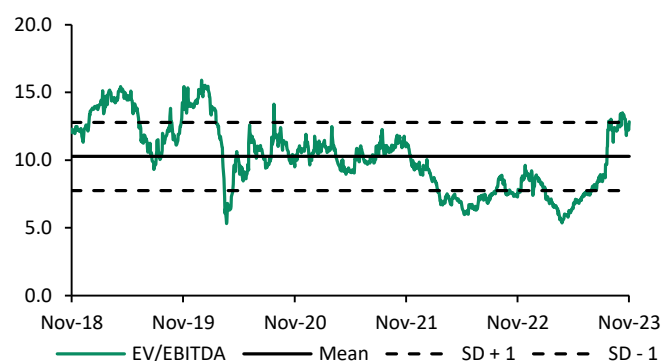
- Car Sunroof will add new wings to fly higher, will broadly add ~8/12% in PAT by FY26/FY27 respectively, as per our estimates. To start clocking double-digit margin from FY26e onwards.
- Commercial production to begin from Jan-2025, ramp-up will be faster. Expect a decent level of revenues to flow-in from the start of FY25 (Rs 4bn in FY25e, & will touch Rs 6.75bn in FY27e).
- In discussions with other OEMs for orders. **As the JV & technology partner is 2nd ranked globally, and Gabriel has strong customer relations, hence, it would not be tough for the company to get new business.**
- The demand potential is good (1.2mn units size FY24e), hence parallelly working on 2nd line of production at the same place.
- Finally, the company has opened-up, and plans to add new tech-agnostic products in the coming years. **We anticipate atleast two new products to flow in the coming 3-5 years. This will boost financial performance in the mid-to-long term.**

Outlook and valuations

- We are strongly convinced on the company's competitive position, its key clients gaining market share, new avenues of growth after entering into automotive sunroof, and boosted efforts in the aftermarket, exports & railways.
- Gabriel is well placed for the mid-to-long term growth opportunities as they plans to enter into a few new products, starting sunroofs. The company is debt free with cash & investments of Rs 1.87bn, and has always generated good positive cash flows in the past eleven years.
- The stock is trading at P/E of 18.3x Sept 2025 estimated EPS of Rs 18.6. Gabriel has strong growth prospects with healthy return profile, we have **assigned a multiple of 22x to its Sept 2025 estimated EPS to arrive at a target price of Rs 409 a piece.** Our estimates largely remain intact.
- The company has been trading at ~18x 1-year forward PE in the last five years, a ~20% premium (22x) is largely as Gabriel India has finally opened-up and plans to add new products, warrants a higher premium multiple vis-à-vis past.

Fig 1: 1-year forward P/E


Source: AceEquity, SMIFS research

Fig 2: 1-year forward EV/EBITDA


Source: AceEquity, SMIFS research

Fig 3: Change in Estimates

Rs mn	New Estimates		Old Estimates		Change (%)	
	FY24e	FY25e	FY24e	FY25e	FY24e	FY25e
Revenue	34,332	39,281	34,332	39,281	0.0%	0.0%
Gross profit	8,652	9,997	8,652	9,997	0.0%	0.0%
Gross margin (%)	25.2	25.5	25.2	25.4	(0) bps	0 bps
EBITDA	3,000	3,609	3,000	3,609	0.0%	0.0%
EBITDA margin (%)	8.7	9.2	8.7	9.2	0 bps	0 bps
PAT	1,903	2,323	1,893	2,318	0.5%	0.2%
EPS (Rs)	13	16	13	16	0.4%	0.5%

Source: Company, SMIFS research estimates

Q2FY24 – Key takeaways from the management call

Sunroof business

- The entire line is ready, sent product as sample for testing, and will start commercial production from January 2024, ramp up will be steep.
- Have plans to add 2nd line in the future at the same building, parallelly working on it. The lead time to setup a new line is 30 weeks.
- The focus now is on executing Hyundai orders, while Kia order to start in Jan 2025. In discussions with several Indian OEMs, received RFQs.
- EBITDA Margin in sunroof business is double-digit at good utilization level.

Two and three-wheelers

- On 3W EVs, Gabriel has good share with organized players like Bajaj Auto, M&M, etc. but on an overall basis, Gabriel's market share is 8% in it.
- The suspension order received from Gogoro is for Rs 200mn annually.
- Given 4k front forks for e-bikes. Gabriel is working on reducing the weight of the product.

Passenger vehicles

- Jimny production revised upwards as Suzuki is making India an export hub for this product.
- UV contribution is ~52% of the PV industry, and this will increase to 60-65% in India. Gabriel has a good order pipeline for UVs, working with VW, received one SUV order from Maruti, one model from Tata Motors. Overall, seeing good traction for Gabriel in the SUV segment.
- In EVs, Gabriel is not present with main players i.e. Tata Nexon and MG Motor. The company won a new order with Tata Motors model, which will also go in EV variant, but volume is small.
- Except tuning, there is not much difference in EV Shox. Investing further to make suspension as silent as possible.
- On FSD tech, Gabriel is in talks with two clients.

CVs & Railways

- The market share in commercial vehicles is high at 89%, and Gabriel is confident of sustaining the same for the next five years.
- Reason for such high share is due to competence of developing the product with keeping cost low, experience of understanding the CV market as it requires high variants, but volumes are low. In addition, Gabriel's service level is excellent and have good customer relationships.

Exports

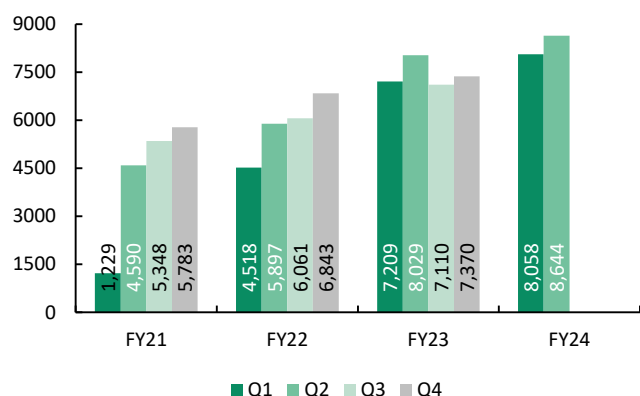
- Revenue declined in Q2 as exports to Columbia was very low as they have stocked up earlier. The production should revive in Q3.
- RFQs received from DAF for axle dampers.

Margins

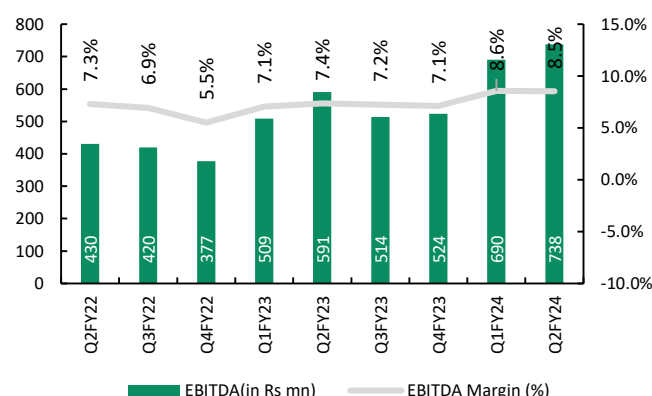
- QoQ gross margin declined due to mix as exports was little down.
- Employee cost was higher as little extra cost incurred owing to actuarial valuation plus some wage hike. Broadly, this run-rate will sustain at current volumes.
- The aim is to take EBITDA Margin in double-digit, and for this Core90 program, better mix (Aftermarket, Exports & Railways portion need to increase), and working on to improve PV Shox margins.
- PV Shox is a competitive market, Gabriel is pursuing OEMs for some compensation, and expect some improvement in this segment.

Other key highlights

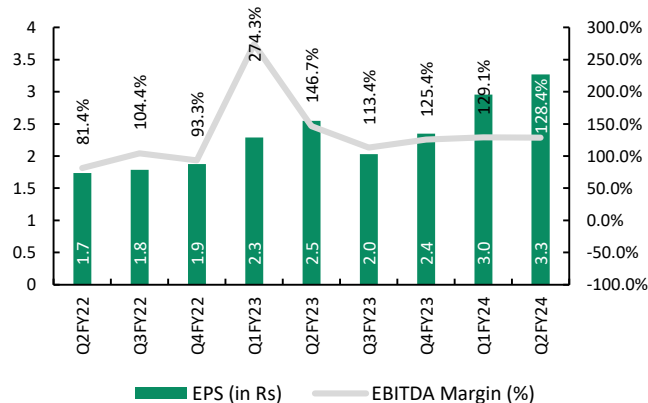
- Setup R&D centre in Belgium specially focused on PV shock absorbers & semi-active suspension. It's easy to get talent & knowledge over there plus customer reach.
- Gabriel to announce one new product in FY25.
- FY24 standalone capex will be Rs 1bn.
- Aftermarket reported 9% YoY growth in Q2FY24.

Fig 4: Highest quarterly revenue (Rs mn)


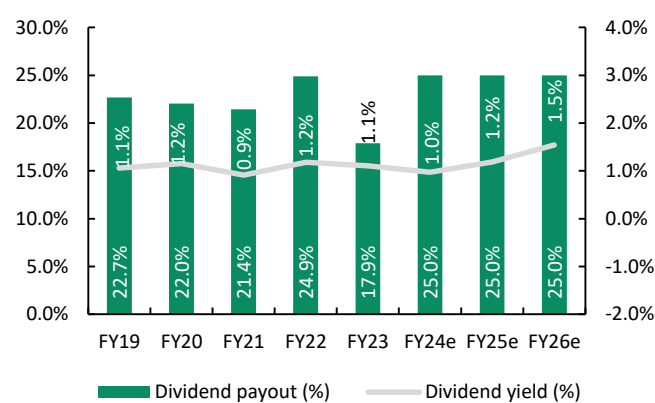
Source: Company, SMIFS research

Fig 5: Highest quarterly EBITDA; margin moving upwards


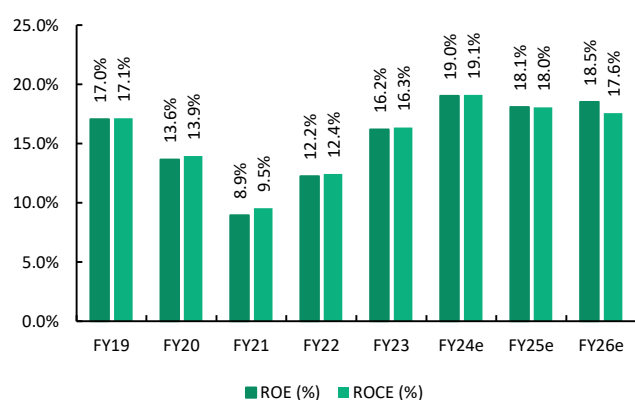
Source: Company, SMIFS research

Fig 6: Reported highest quarterly EPS


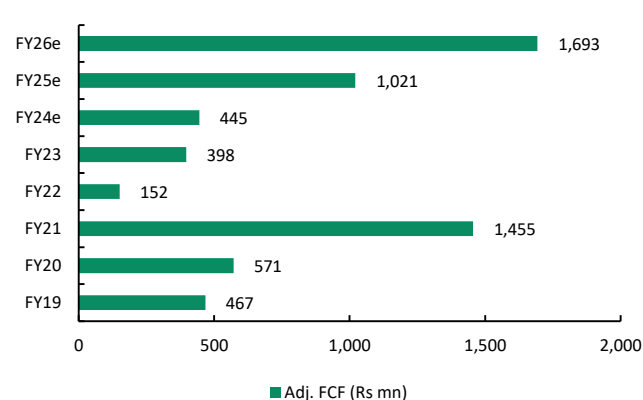
Source: Company, SMIFS research

Fig 7: Consistent dividend payout & yield (%)


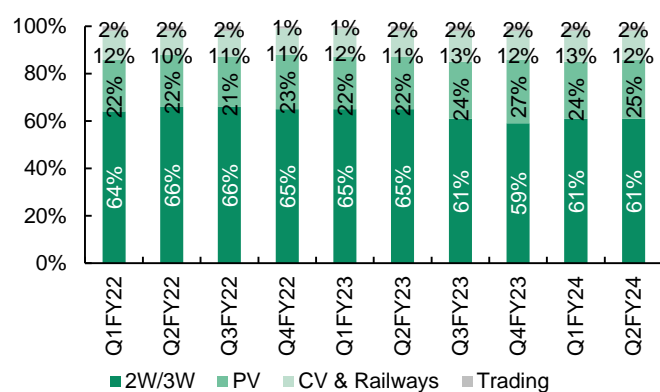
Source: Company, SMIFS research estimates

Fig 8: Healthy return ratios (%)


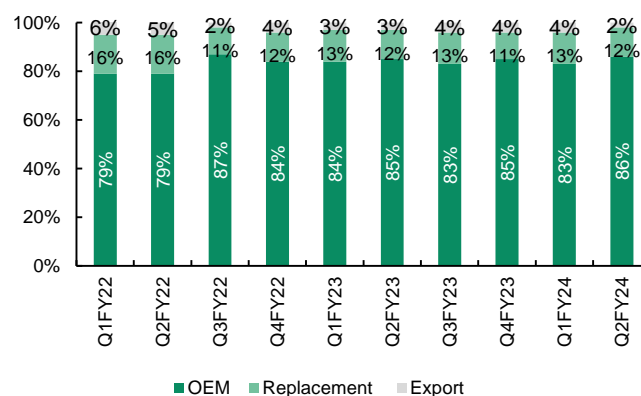
Source: Company, SMIFS research estimates

Fig 9: Consistently generating positive FCF (Rs mn)


Source: Company, SMIFS research estimates

Fig 10: Quarterly Segment mix (%)


Source: Company, SMIFS research

Fig 11: Quarterly Channel mix (%)


Source: Company, SMIFS research

Quarterly financials, operating metrics & key performance indicators

Fig 12: Quarterly Financials

Y/E March (Rs Mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Sales	6,061	6,843	7,209	8,029	7,110	7,370	8,058	8,644
Raw Materials	4,654	5,334	5,517	6,182	5,377	5,612	6,026	6,507
Employee Costs	388	420	441	455	473	462	497	542
Other Expenditure	599	712	743	800	745	773	845	858
EBITDA	420	377	509	591	514	524	690	738
Depreciation	109	107	112	118	127	130	137	141
Interest	7	2	14	11	13	8	22	12
Other Income	65	108	61	29	18	65	46	46
Exceptional Items	-	-	-	-	-	-	-	-
PBT	369	377	445	492	392	450	577	630
Tax	112	108	116	127	101	112	152	161
Tax rate (%)	30	29	26	26	26	25	26	25
Reported PAT	257	269	329	366	291	338	425	470
Adjusted PAT	257	269	329	366	291	338	425	470
YoY Growth (%)								
Revenue	13.3	18.3	59.6	36.1	17.3	7.7	11.8	7.7
EBITDA	11.9	(19.5)	119.3	37.4	22.3	38.8	35.7	24.8
PAT	4.4	(6.7)	174.3	46.7	13.4	25.4	29.1	28.4
QoQ Growth (%)								
Revenue	2.8	12.9	5.3	11.4	(11.4)	3.7	9.3	7.3
EBITDA	(2.3)	(10.2)	34.8	16.2	(13.1)	1.9	31.8	6.9
PAT	3.1	4.8	22.3	11.1	(20.4)	15.9	25.9	10.5
Margin (%)								
RMC/revenue (%)	76.8	77.9	76.5	77.0	75.6	76.2	74.8	75.3
Gross margin (%)	23.2	22.1	23.5	23.0	24.4	23.8	25.2	24.7
Employee cost/revenue (%)	6.4	6.1	6.1	5.7	6.7	6.3	6.2	6.3
Other expenses/revenue (%)	9.9	10.4	10.3	10.0	10.5	10.5	10.5	9.9
EBITDA margin (%)	6.9	5.5	7.1	7.4	7.2	7.1	8.6	8.5
PAT margin (%)	4.2	3.9	4.6	4.6	4.1	4.6	5.3	5.4

Source: Company, SMIFS research

FINANCIAL STATEMENTS

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24e	FY25e	FY26e
Revenues	23,320	29,717	34,332	39,281	45,415
Raw Materials	17,863	22,688	25,680	29,284	33,743
% of sales	76.6	76.3	74.8	74.6	74.3
Personnel	1,597	1,831	2,081	2,342	2,662
% of sales	6.8	6.2	6.1	6.0	5.9
Manufacturing & Other Expenses	2,401	3,061	3,571	4,046	4,632
% of sales	10.3	10.3	10.4	10.3	10.2
EBITDA	1,459	2,137	3,000	3,609	4,377
Other Income	262	174	209	261	339
Depreciation & Amortization	414	486	601	714	826
EBIT	1,307	1,825	2,607	3,156	3,890
Finance cost	43	46	40	36	33
Core PBT	1,003	1,605	2,359	2,859	3,518
Share of Profit from JV	-	-	-	15	221
PBT	1,265	1,779	2,568	3,135	4,078
Tax	369	456	665	812	1,056
Tax Rate (%)	29.2	25.6	25.9	25.9	25.9
Reported PAT	895	1,324	1,903	2,323	3,023
Adjusted PAT	895	1,324	1,903	2,323	3,023

Source: Company, SMIFS research estimates, incorporated sunroof business from FY25e

Key Ratios					
YE March	FY22	FY23	FY24e	FY25e	FY26e
Growth Ratio (%)					
Revenue	37.6	27.4	15.5	14.4	15.6
EBITDA	42.3	46.4	40.4	20.3	21.3
PAT	48.5	47.9	43.8	22.1	30.1
Margin Ratios (%)					
Gross Margin	23.4	23.7	25.2	25.5	25.7
EBITDA Margin	6.3	7.2	8.7	9.2	9.6
EBIT Margin	5.6	6.1	7.6	8.0	8.6
Core PBT margin	4.3	5.4	6.9	7.3	7.7
Adjusted PAT Margin	3.8	4.5	5.5	5.9	6.7
Return Ratios (%)					
ROE	12.2	16.2	19.0	18.1	18.5
ROCE	12.4	16.3	19.1	18.0	17.6
Turnover Ratios (days)					
Gross block turnover ratio (x)	4.0	4.5	4.3	4.0	4.0
Adjusted OCF/PAT (in %)	103	100	120	109	106
Inventory	42	35	35	35	35
Debtors	52	47	47	47	47
Creditors	89	74	74	74	74
Cash Conversion Cycle	5	8	8	8	8
Solvency Ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net debt-equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Gross debt/EBITDA	0.1	0.1	0.0	0.0	0.0
Current Ratio	1.7	1.8	1.8	2.1	2.4
Interest coverage ratio	31	40	66	87	119
Dividend					
DPS	1.6	1.7	3.3	4.0	5.3
Dividend yield %	1.2	1.1	1.0	1.2	1.5
Dividend payout %	24.9	17.9	25.0	25.0	25.0
Per share Ratios (Rs)					
Basic EPS (reported)	6.2	9.2	13.2	16.2	21.0
Adjusted EPS	6.2	9.2	13.2	16.2	21.0
CEPS	9.1	12.6	17.4	21.1	26.8
BV	53.4	60.6	78.8	100.3	126.9
Valuation (x)					
P/E	21.1	16.2	25.7	21.1	16.2
P/BV	2.5	2.5	4.3	3.4	2.7
EV/EBITDA	12.1	9.2	15.4	12.2	9.4
EV/Sales	0.8	0.7	1.3	1.1	0.9
Adj Mcap/Core PBT	17.4	12.2	19.5	15.3	11.7
Adj Mcap/Adj OCF	18.9	14.9	20.2	17.4	12.9

Source: Company, SMIFS research estimates

Balance Sheet					
YE March (Rs mn)	FY22	FY23	FY24e	FY25e	FY26e
Sources of funds					
Capital	144	144	144	144	144
Reserves & Surplus	7,524	8,559	11,171	14,270	18,091
Shareholder's Funds	7,668	8,703	11,315	14,414	18,234
Total Loan Funds	129	112	102	92	82
Other non-current liabilities	292	291	131	131	131
Total Liabilities	8,089	9,105	11,548	14,637	18,447
Application of funds					
Gross Block	6,179	6,931	8,951	10,604	12,257
Net Block	3,854	4,203	5,622	6,561	7,387
Capital WIP	203	351	445	175	189
Investments	838	795	803	811	820
Other Non-Current Assets	394	291	291	291	291
Inventories	2,100	2,248	2,461	2,806	3,233
Sundry Debtors	3,824	3,837	4,425	5,063	5,854
Cash and Bank balances	546	1,075	2,139	4,296	6,940
Other current Assets	1,772	1,480	1,480	1,480	1,480
Total Current Assets	8,241	8,639	10,504	13,645	17,507
Sundry Creditors	4,762	4,405	5,188	5,916	6,817
Other Current Liabilities	680	771	930	930	930
Total Current Liabilities	5,442	5,175	6,118	6,846	7,747
Net Current Assets	2,799	3,464	4,387	6,799	9,760
Total Assets	8,089	9,105	11,548	14,637	18,447

Source: Company, SMIFS research estimates

Cash Flow					
YE March (Rs mn)	FY22	FY23	FY24e	FY25e	FY26e
Operating profit before WC changes	1,578	2,200	3,000	3,624	4,598
Net chg in working capital	(296)	(424)	(17)	(255)	(317)
Income tax paid	(317)	(412)	(665)	(812)	(1,056)
Cash flow from operating activities (a)	965	1,364	2,318	2,557	3,225
Adjusted OCF	922	1,318	2,278	2,521	3,193
Capital expenditure	(770)	(920)	(1,833)	(1,500)	(1,500)
Adjusted free cash flow	152	398	445	1,021	1,693
Cash flow from investing activities (b)	(442)	(1,038)	(1,913)	(1,130)	(1,336)
Debt issuance (repayment)	(32)	(28)	(10)	(10)	(10)
Interest and lease expenses	(180)	(274)	(476)	(581)	(756)
Dividend paid	(28)	(35)	(40)	(36)	(33)
Cash flow from financing activities (c)	(241)	(337)	659	730	755
Net chg in cash (a+b+c)	281	(12)	1,064	2,157	2,644

Source: Company, SMIFS research estimates

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