

EV immune product profile, bullish stance retained...

About the stock: Gabriel India (GIL) is a global top-10 shock absorber manufacturer serving 2-W, 3-W, PV, CV, railway and aftermarket segments.

- FY21 revenue mix – ~67% 2-W, 3-W, ~21% PV, ~12% CV & railways
- FY21 market share – 25% in 2-W, 3-W, 18% in PV, 75% in CV & railways
- On-boarded EV players in 2-W, 3-W space & is sole supplier for Ola Electric

Q1FY22 Results: GIL posted muted Q1FY22 results.

- Net sales at ₹ 453.6 crore were lower by 21.9% QoQ
- Margins declined 300 bps sequentially to 5.5%
- Consequent PAT fell 56.7% QoQ to ₹ 12 crore

What should investors do? The stock price has grown at modest ~3% CAGR from ₹ 115 levels (August 2016), having done slightly better than Nifty Auto index.

- We retain **BUY** rating on mix & margin gains and large EV opportunity

Target Price and Valuation: We value GIL at 20x P/E on FY23E basis for a revised target price of ₹ 160 per share (earlier target price ₹ 150).

Key triggers for future price performance:

- We build 16.3% net sales CAGR in FY21-23E on post-Covid OEM rebound, new order wins and market share gains
- EV-proof products; potential to be outsized beneficiary of 2-W electrification
- Lowered breakeven levels, cost focus and higher share of aftermarket and exports from current levels to aid margin improvement to 8.5% by FY23E
- Net cash b/s (~₹ 250 crore cash & liquid investments); ~14% of market cap

Alternate Stock Idea: Apart from GIL, in auto ancillary coverage, we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with a target price of ₹ 180

GABRIEL

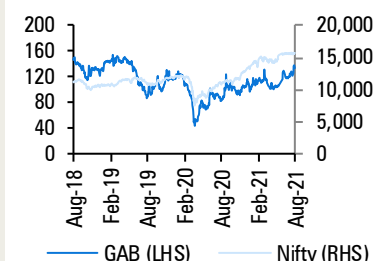
Particulars

Particulars	Amount
Market capitalisation (₹ crore)	1,839.0
Total Debt (FY21, ₹ crore)	12.9
Cash & Investment (FY21, ₹ crore)	270.6
EV (₹ crore)	1,581.3
52 week H/L (₹)	146 / 84
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	52.8	52.8	55.0	55.0
FII	10.7	4.3	3.8	3.3
DII	5.8	11.3	6.6	6.8
Other	30.7	31.7	34.6	35.0

Price Chart



Recent event & key risks

- Posted muted Q1FY22 results.
- Key Risk:** (i) wallet/market share losses at key OEM clients, (ii) sustained cost pressure due to commodity cost inflation.

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23)
Net Sales	2,077	1,870	1,700	3.6%	2,018	2,298	16.3%
EBITDA	178	138	108	-3.3%	141	195	34.7%
EBITDA Margins (%)	8.6	7.4	6.3		7.0	8.5	
Net Profit	95	85	60	-4.3%	79	115	38.2%
EPS (₹)	6.6	5.9	4.2		5.5	8.0	
P/E	19.4	21.7	30.5		23.3	16.0	
RoNW (%)	16.1	13.0	8.7		10.4	13.6	
RoCE (%)	22.0	14.0	9.0		12.2	16.6	

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

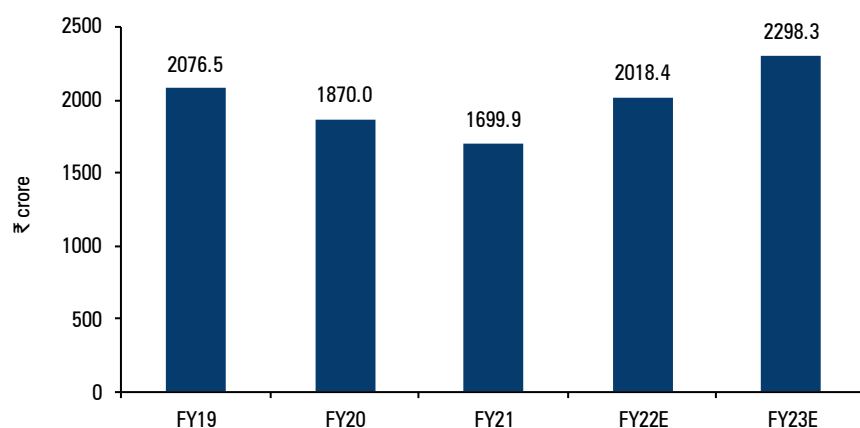
- On account of relatively smaller aftermarket exposure, net sales tracked wider OEM industry decline during the quarter of >30%, falling ~22%
- Margin decline was entirely due to negative operating leverage, with gross margins stable sequentially in Q1FY22
- Other income (₹ 2.7 crore) was lower than earlier run rate, aided PAT decline

Q1FY22 Earnings Conference Call highlights

- The company said that 2-W electrification in India is progressing faster than expected courtesy policy support. GIL is present with leading electric 2-W OEMs (Ola Electric, Hero Electric, Ather Energy, Ampere, Bajaj Auto, TVS, Okinawa) and 3-W OEMs (M&M, Piaggio, Tube Investments). On the 4-W side, however, it is not yet present with market leader Nexon of Tata Motors
- GIL is the sole supplier for front forks and rear shocks to Ola Electric. Pricing is competitive with margins being slightly better
- Potential content per vehicle in EVs is higher compared to present ICE offerings. There is little by way of product/technology difference at present, but future electric car offerings could require noise reduction efforts
- On the PV side, GIL has won new models with Maruti Suzuki recently (new Alto, new Brezza, Jimny) and M&M (XUV700), which would help it regain some lost market share
- Q1FY22 was the best ever quarter for exports, which was at ₹ 27.6 crore. Post being onboarded by DAF trucks in Netherlands (unit of Paccar), the company is witnessing increasing interest from other CV OEMs
- GIL is currently in advanced discussion with two global CV makers and one global PV maker. However, the lead time to break into global OEMs remains around three to four years
- Aftermarket now forms 14% of sales vs. 12-13% earlier
- Over the longer term, the company aims to achieve double digit margins riding on volume improvement, cost measures and higher contribution from CV, railways, aftermarket and exports. Efforts to increase localisation levels are seen contributing from Q2FY22E onwards
- Pass through of steel, aluminium price hikes occur with one quarter lag
- FY22E capex guidance was at ~₹ 100 crore

Financial story in charts

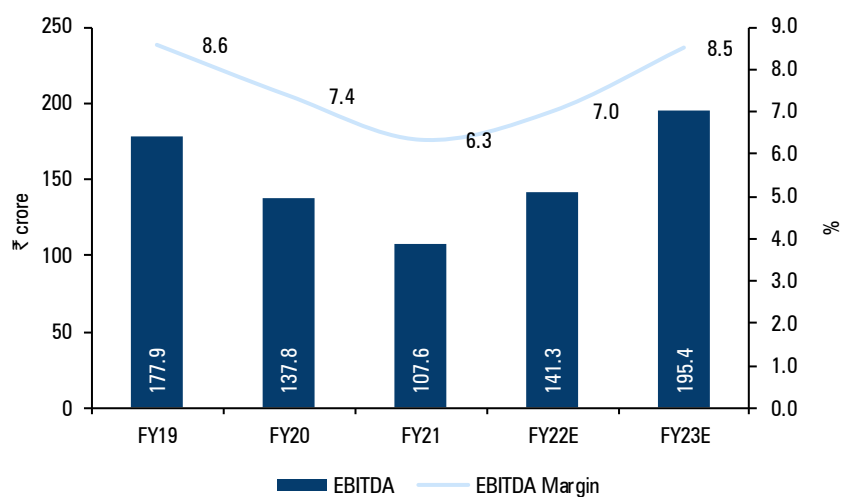
Exhibit 1: Trend in topline



GIL is seen posting 16.3% net sales CAGR over FY21-23E

Source: Company, ICICI Direct Research

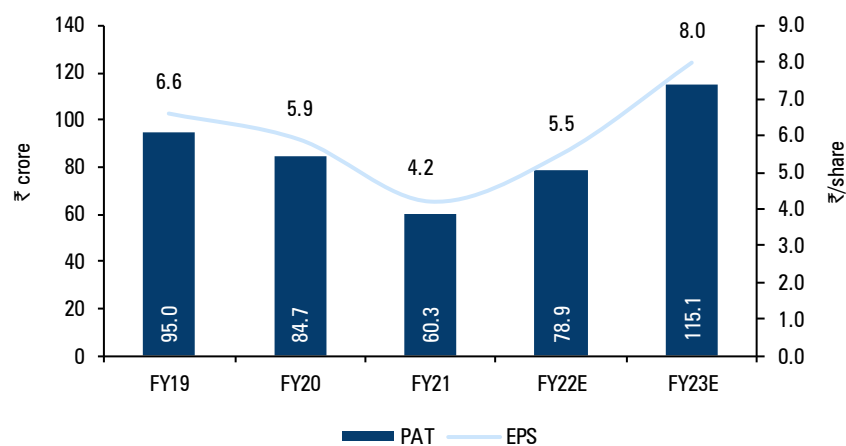
Exhibit 2: Trend in margins



Margins are seen returning to 8.5% levels by FY23E on cost reduction and localisation efforts, mix improvements and operating leverage gains

Source: Company, ICICI Direct Research

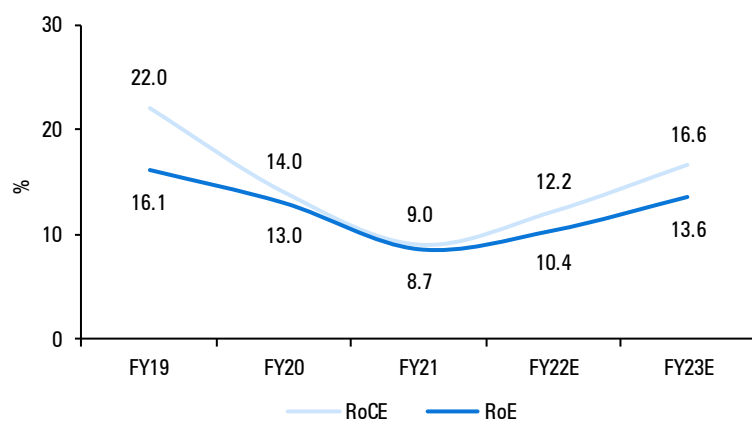
Exhibit 3: Trend in profitability



We expect PAT to grow to ₹ 115 crore by FY223E

Source: Company, ICICI Direct Research

Exhibit 4: Trend in return ratios



We expect GIL to clock 16.6% RoCE in FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	1,833	21.2	6.6	25.2	19.5	10.2	17.9	24.0
FY19	2,077	13.3	6.6	0.9	19.4	9.8	16.1	22.0
FY20	1,870	(9.9)	5.9	(10.8)	21.7	12.4	13.0	14.0
FY21	1,700	(9.1)	4.2	(28.9)	30.5	14.7	8.7	9.0
FY22E	2,018	18.7	5.5	30.9	23.3	12.0	10.4	12.2
FY22E	2,298	13.9	8.0	45.8	16.0	8.3	13.6	16.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 6: Profit and loss statement					₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E					
Net Sales	1870.0	1699.9	2018.4	2298.3					
Other Operating Income	0.0	0.0	0.0	0.0					
Total Operating Income	1,870.0	1,699.9	2,018.4	2,298.3					
Growth (%)	2.0	-9.1	18.7	13.9					
Raw Material Expenses	1,369.7	1,265.3	1,513.8	1,700.7					
Employee Expenses	155.4	147.4	161.5	172.4					
Other Operating Expense	207.1	179.6	201.8	229.8					
Total Operating Expenditure	1,732.2	1,592.3	1,877.1	2,102.9					
EBITDA	137.8	107.6	141.3	195.4					
Growth (%)	-19.5	-21.9	31.3	38.3					
Depreciation	43.7	42.4	45.9	50.3					
Interest	3.6	6.6	5.9	5.3					
Other Income	9.7	19.2	16.0	14.1					
PBT	100.3	77.9	105.5	153.8					
Exceptional Item	0.0	0.0	0.0	0.0					
Total Tax	15.6	17.6	26.6	38.8					
PAT	84.7	60.3	78.9	115.1					
Growth (%)	-10.0	-28.9	30.9	45.8					
EPS (₹)	5.9	4.2	5.5	8.0					

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement					₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E					
Profit after Tax	84.7	60.3	78.9	115.1					
Add: Depreciation	43.7	42.4	45.9	50.3					
(Inc)/dec in Current Assets	58.4	-110.9	-16.0	-45.1					
Inc/(dec) in CL and Provisions	-47.8	184.6	-103.7	19.5					
Others	0.9	29.4	5.9	5.3					
CF from operating activities	139.9	205.7	11.0	145.0					
(Inc)/dec in Investments	-38.0	62.3	15.0	-30.0					
(Inc)/dec in Fixed Assets	-57.3	-54.6	-100.0	-50.0					
Others	-10.5	2.5	0.0	0.0					
CF from investing activities	-105.8	10.3	-85.0	-80.0					
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0					
Inc/(dec) in loan funds	0.6	5.1	-2.0	-2.0					
Dividend paid & dividend tax	-26.0	-19.5	-23.1	-30.5					
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0					
Others	-0.5	-2.9	0.0	0.0					
CF from financing activities	-25.9	-17.2	-25.1	-32.5					
Net Cash flow	8.2	198.8	-99.2	32.5					
Opening Cash	48.5	56.8	255.5	156.4					
Closing Cash	56.8	255.5	156.4	188.9					

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet					₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E					
Liabilities									
Equity Capital	14.4	14.4	14.4	14.4					
Reserve and Surplus	637.4	681.9	743.6	833.5					
Total Shareholders funds	651.8	696.3	758.0	847.9					
Total Debt	7.8	12.9	10.9	8.9					
Deferred Tax Liability	8.0	10.5	10.5	10.5					
Minority Interest / Others	5.6	5.6	5.6	5.6					
Total Liabilities	673.2	725.3	785.0	872.9					
Assets									
Gross Block	768.8	815.3	933.0	983.0					
Less: Acc Depreciation	420.2	462.6	508.5	558.8					
Net Block	348.6	352.7	424.5	424.2					
Capital WIP	19.6	27.7	10.0	10.0					
Total Fixed Assets	368.2	380.4	434.5	434.2					
Investments	92.3	30.0	15.0	45.0					
Inventory	156.1	196.5	165.9	188.9					
Debtors	233.3	293.8	331.8	346.3					
Loans and Advances	32.4	36.0	42.7	48.6					
Other Current Assets	3.9	10.3	12.2	13.9					
Cash	56.8	255.5	156.4	188.9					
Total Current Assets	482.4	792.1	709.0	786.6					
Current Liabilities	273.8	457.3	359.4	377.8					
Provisions	26.4	27.4	21.6	22.7					
Current Liabilities & Prov	300.2	484.7	381.0	400.5					
Net Current Assets	182.3	307.4	327.9	386.2					
Others Assets	30.5	7.7	7.7	7.7					
Application of Funds	673.2	725.3	785.0	872.9					

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios									
(Year-end March)	FY20	FY21	FY22E	FY23E					
Per share data (₹)									
EPS	5.9	4.2	5.5	8.0					
Cash EPS	8.9	7.1	8.7	11.5					
BV	45.4	48.5	52.8	59.0					
DPS	1.3	0.9	1.2	1.8					
Cash Per Share (Incl Invst)	10.4	19.9	11.9	16.3					
Operating Ratios (%)									
EBITDA Margin	7.4	6.3	7.0	8.5					
PAT Margin	4.5	3.5	3.9	5.0					
Inventory days	30.5	42.2	30.0	30.0					
Debtor days	45.5	63.1	60.0	55.0					
Creditor days	53.4	98.2	65.0	60.0					
Return Ratios (%)									
RoE	13.0	8.7	10.4	13.6					
RoCE	14.0	9.0	12.2	16.6					
RoIC	18.1	15.3	15.4	22.5					
Valuation Ratios (x)									
P/E	21.7	30.5	23.3	16.0					
EV / EBITDA	12.4	14.7	12.0	8.3					
EV / Net Sales	0.9	0.9	0.8	0.7					
Market Cap / Sales	1.0	1.1	0.9	0.8					
Price to Book Value	2.8	2.6	2.4	2.2					
Solvency Ratios									
Debt/EBITDA	0.1	0.1	0.1	0.0					
Debt / Equity	0.0	0.0	0.0	0.0					
Current Ratio	1.4	1.1	1.5	1.5					
Quick Ratio	0.9	0.7	1.0	1.0					

Source: Company, ICICI Direct Research

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Sell: <-15%



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