Buy

Gabriel India

Industry: Auto and Auto Components

Shock Proof!.....

Gabriel India Ltd (Gabriel), the flagship company of Anand Group is a pioneer in ride control products in automobiles such as 1). Front forks and Rear Shox used in 2W and 3W 2). Struts and shock absorbers in passenger cars and 3). Shock absorbers and cabin & seat dampers for commercial vehicles. The company has seven manufacturing units and two satellite locations in India functioning at ~75% utilization rates. Gabriel operates in a market where there are many unorganized players as well, but Gabriel is firmly holding among the top 2-3 positions with a formidable market share in all the auto segments and a long running relationship with most of the auto OEMS in India. On the back of decent topline and bottomline growth and a clean and strong balance sheet we believe Gabriel is well poised to trace the inherent strength in the automobile industry throughout its crests and troughs.

Robust market share position provides comfort to the investors

Gabriel has grown at approximately 7%20% CAGR at the topline/bottomline over the last five years between FY13-18, though in the last two years the growth has been ~20%/15% respectively. This is on the back of strong auto sales in most of its underlying segment verticals. The company having earning about 86% of revenues from the auto OEM segment is a major supplier to all the OEMs across India, however, no single client contributes >20% of its topline, which reduces its client dependency. It boasts of 85% market share in the CV industry, 65% in 3 wheelers, 25% in Railways and 43% in Aftermarkets while ~25% in the PV and two wheeler segments each. Technical collaborations with KONI Netherlands, KYB Corporation (Japan), KYBSE (Spain) and Yamaha Motors Hydraulic Systems (Japan) gives the company an edge over its competitors as long as technology is concerned.

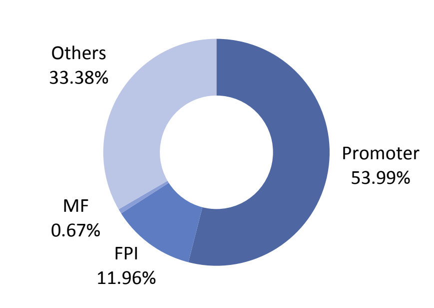
Wide client base reduces uncertainty of customer concentration

2W - Gabriel being the second largest shock absorber manufacturing company after Munjal Showa in the 2W segment (contributing 58% of revenues) growing at 25% in Q1 FY19 has a huge client base including all the big OEMs except HMCL in that space(Munjal Showa being their in-house sole supplier). Gabriel is the largest vendor of HMSI, and fancies great chances to acquire secured long term business with HMSI's aggressive expansion of capacities and launch of new products. In order to cater to HMSI's requirement of front forks at its Gujarat plant where they are expanding their capacities (upcoming capacity of 1.2 mn), Gabriel has set up a capex of Rs50 cr for FY 19-20 at its Sanand plant. Except for HMCL Gabriel is one of the major vendors for all of the two wheeler OEMs in India. In order to cater to the increasing demand at the TVS plant, Gabriel has set up a new assembly line (satellite plant) at Hosur. Apart from this, Gabriel is an important vendor to the likes of Yamaha, Royal Enfield and Suzuki as well. For Gabriel we expect the segment to drive the revenues as rural markets are growing at much higher rate than urban markets and 2 wheelers find great demand over there. The ongoing implementation of 7th Pay Commission shall also continue along with new launches constantly coming up from all the major players in India. With Bajaj Auto now focusing more on the lower end of the 2 wheeler market, the segment is expected to expand well thus leading to good demand for the auto ancillaries space.

PV - On the PV side (27% of revenues in Q1 FY19), though Maruti, M&M, Volkswagen, Honda and Tata Motors remain the largest clients of Gabriel, the clientele also includes all other domestic as well as foreign client base. The company is a single source supplier to one of the highest selling SUV Vitarra Brezza and other strong performers like XUV 5oo, KUV 1oo, Ignis, LCV Super Carry and S Cross. The company has also started supplying to the high sellers Tiago and Tigor models of Tata Motors off late, where it is a second supplier just like it is on Scorpio, Wagon R, Alto, Bolero platforms. The company (indirectly) is also on the Hyundai platform through Mando, a subsidiary of Anand Group.

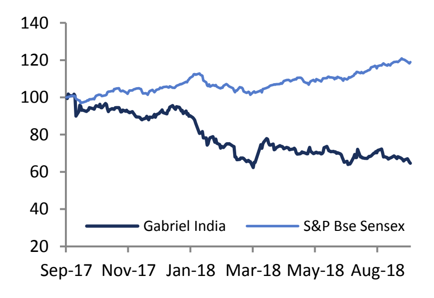
Stock Data	
Current Market Price (₹)	132
12M Price Target (₹)	193
Potential upside (%)	45
BSE / NSE Symbol	505714 / GABRIEL
Reuters / Bloomberg	GABR.BO / GABR IN
FV (₹)	1.00
Market Cap Full (₹ bn)	19
52-Week Range (₹)	223 / 129

Shareholding Pattern



YE Mar	FY17	FY18	FY19E	FY20E
Total sales (₹) bn)	16.8	18.8	20.8	22.8
EBITDA margs (%)	9.6%	9.3%	10.2%	10.7%
PAT margins (%)	5.5%	5.1%	5.8%	6.1%
EPS (₹))	5.8	6.6	8.4	9.7
P/E (x)	23.0	20.3	15.9	13.8
P/BV (x)	4.2	3.6	3.1	2.6
EV/EBITDA (x)	13.3	11.2	9.0	7.7
ROE (%)	18.4%	18.0%	19.5%	19.2%
ROCE (%)	23.1%	23.6%	25.3%	24.9%
Dividend yield (%)	0.9%	1.0%	1.3%	1.5%

Relative Price Performance



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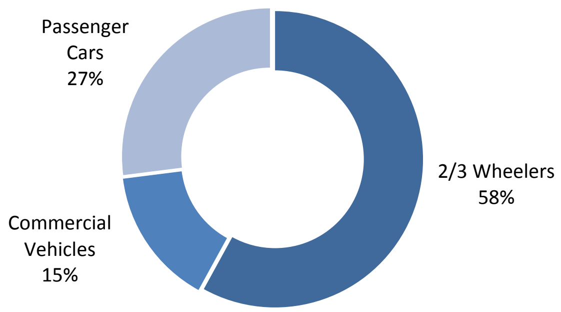
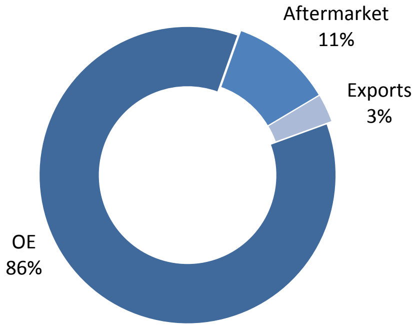
The biggest driver for Gabriel's PV segment going forward is the 2019 launch of the Alto replacement code named currently as 'Y1K'. Gabriel has won a contract to be the sole vendor of this best seller from Maruti's stable. This will meaningfully help the company to improve its PV market share which has slightly come down at 25% due to its absence in some of the big sellers like Swift, Dzire, Baleno platforms. Within the PV segment, UVs form a major portion and Gabriel has a 40% market share in this segment. Also shock absorbers are EV agnostic; hence even if the EV wave sweeps the country, Gabriel's products will face no threat.

CV & Railways- In the CV segment (15% of revenues), Gabriel remains the unanimous leader with 85% market share. Due to its big ticket size product nature and linkage with economy, infrastructure uptick, easing of mining issues in the country, ban on overloading, several such macro tailwinds are supporting the growth of this segment. In Q1 FY19, CV segment of Gabriel has grown at a whopping 50%. We also believe that the pre-buying which is expected to happen in the wake of BS VI norms implementation may create a spurt in the CV volumes from Q1 of FY 20. On the railways business (240% growth in FY 18, albeit on a small base), the company launched 6 new LHB products in FY 18 that accounted about 7.6% of the total Railway sales. With increased focus on safety and comfort, the conventional shock absorbers will be replaced by LHBs to the tune of 18 from existing 6 units per coach mainly in the high speed and hi-tech trains. These products were earlier imported but now are produced locally by the likes of Gabriel. With increasing number of trains to manage larger passenger volumes, the demand for LHB variants will see an exponential growth, though the business is regulated and has emerging competition from the likes of Escorts and some international players.

Segment Mix: Q1 FY19

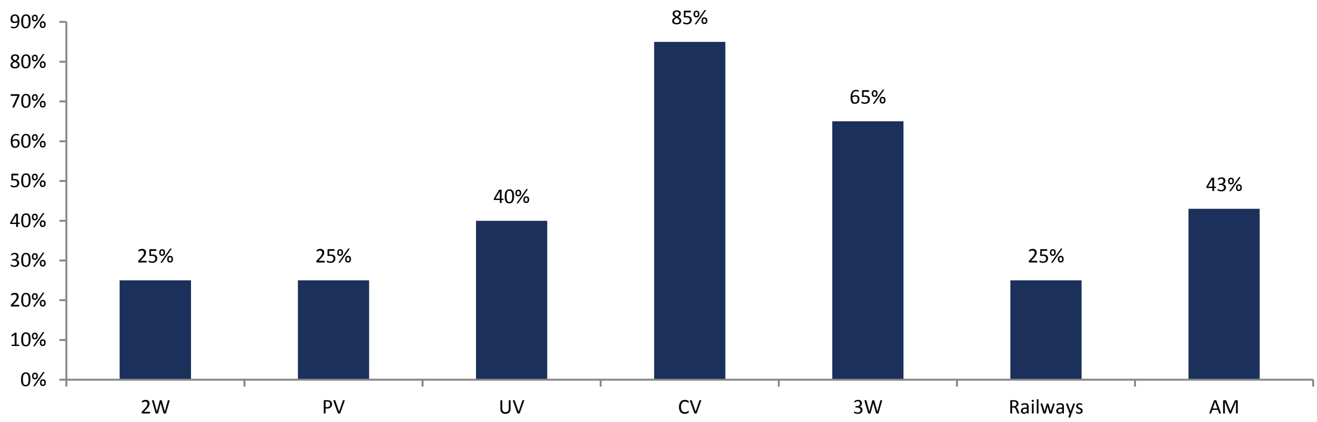


Channel Mix: Q1 FY19



Source: Company, LKP Research

Approximate Market shares of Gabriel (Q1 FY19)

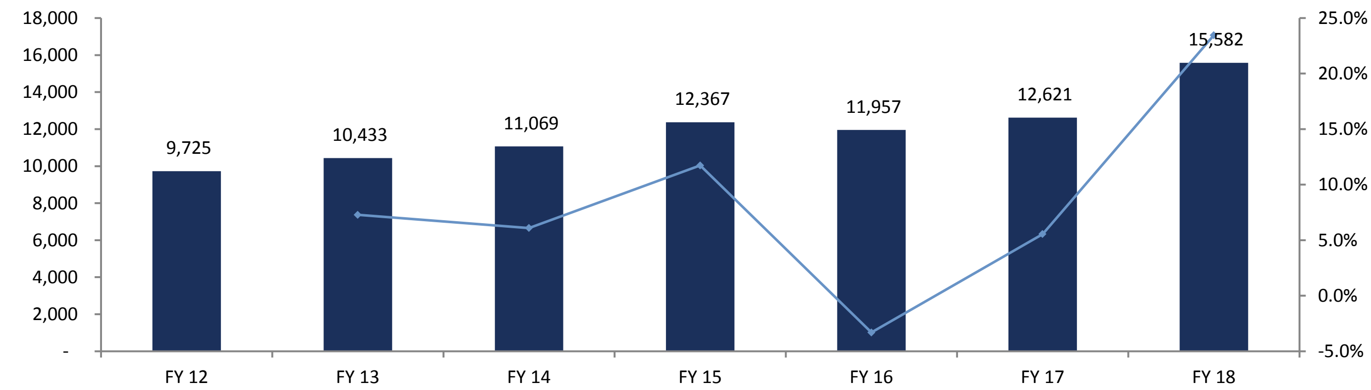


Source: Company, LKP Research

Gabriel boasts of a rich clientele

Source: Company, LKP Research

OEM revenues (₹ mn) and Growth rate(%) trend

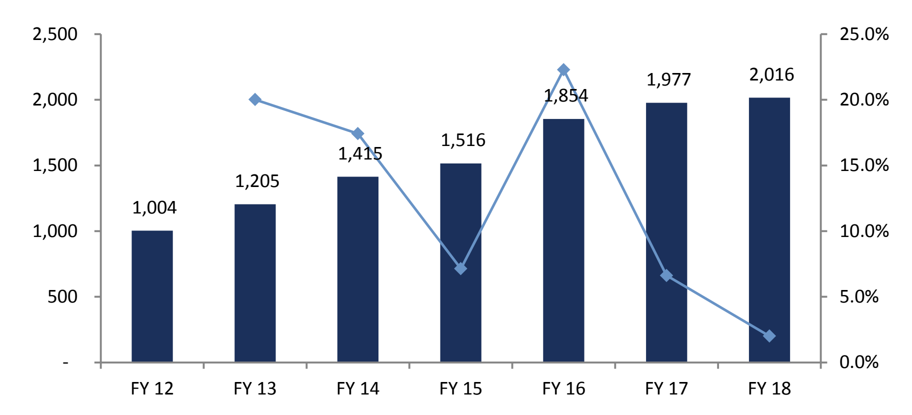


Source: Company, LKP Research

Strong plans to explore the opportunities in the Aftermarket industry

With 500+ strong dealer network and 10,000+ retail outlets, Gabriel has attained a leading position in the Aftermarket industry with ~43% market share (11% contribution to total revenues) through supreme quality products, selling new products and improved relations with distributors. The company has ventured into trading of several new products like radiants, oil coolants, tyres, bush fields etc which attribute about 10% of its Aftermarket sales. Under the Gabriel brand it has entered into new markets like Honduras, Guatemala and Kenya, while appointing new dealers in Nepal, Sri Lanka and other markets. In FY 18, the Aftermarkets business grew by 44%. With replacement cycle for bikes at about 4-5 years we expect a continuous demand for the Aftermarket business of the company as we have seen a constant demand for 2W over the past few years either for motorcycles or for scooters. On the CV side too, Aftermarket business is consistent with road conditions still showing a lot of scope for improvement. GST implementation will further marginalize the unorganized players which as it is contribute to a small share in the CV shock absorber space. The company intends to sell about ₹ 5 bn of revenues from this business by FY 21 from ₹ 2.1 bn in FY18.

AM revenues (₹ mn) and Growth rate(%) trend

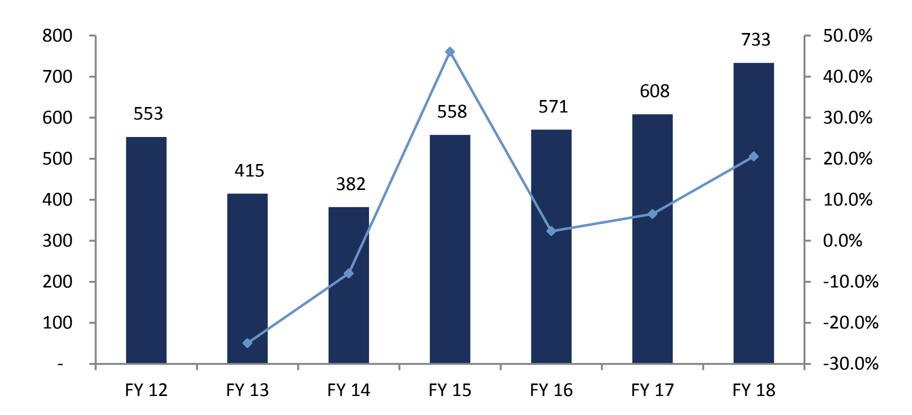


Source: Company, LKP Research

Exports business to move up on a good growth potential

Gabriel currently exports mainly into the USA, Italy, Japan, Iran and Colombia, both in the OEM and exports aftermarket businesses. The current export orders for the company include Mahindra GenZe USA for e-scooter, TVS Indonesia and ISUZU Commercial Vehicles for Thailand and Indonesia. The company has also expanded its presence in markets such as South Asia, Africa, Latin America and Australia. The company is making inroads into the South Asian markets now. Gabriel is the sole supplier to all models of Volkswagen India and through it has been exporting somewhat to the parent too. Gabriel is also providing technology to Gabriel Colombia as Colombian markets are ones where Indian 2W players have a strong presence. The company targets to reduce dependence on domestic markets, enhance competitiveness, increase customer base and accelerate revenue growth in the exports markets.

Exports revenues (₹ mn) and Growth rate(%) trend



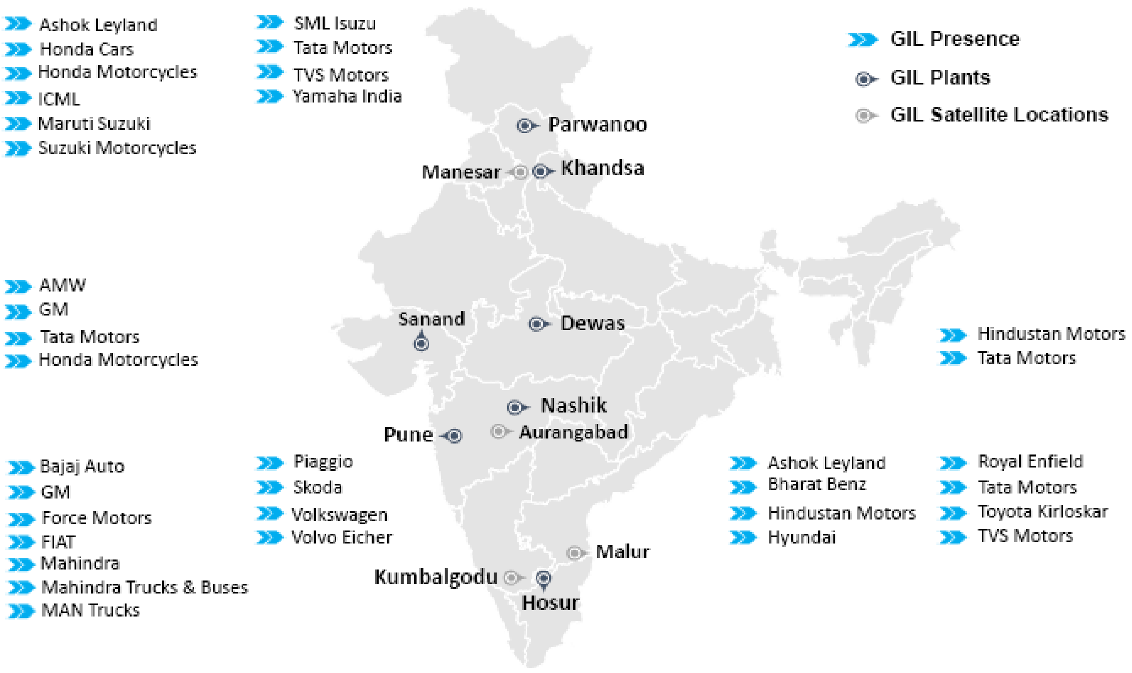
Source: Company, LKP Research

Global tie-ups have provided the technological edge

Gabriel has entered into a long term agreement with the Netherlands based company KONI which has more than 15 years of experience in shock absorber solutions. It develops, manufactures and markets high class performance shock absorbers for all types of cars and commercial vehicles. It is present in India in luxury bus and CV segment. Under the arrangement, KONI will provide technology to design, develop and manufacture innovative damper products for CVs, Buses & Industrial Equipment Suspensions. It will cater to OEMs as well as AM demand in India, Bangladesh, Nepal, Bhutan and Sri Lanka. KONI products are specially designed to suit the Indian markets combined with innovative technology to enhance ride and performance of vehicle. We expect Gabriel to benefit to a great extent to race ahead of its competitors and gain more business in this extremely competitive industry. Another tie-up is with KYB Suspensions, Europe SA, a wholly owned subsidiary of Kayaba Industry Co. Ltd. Japan, providing technology support to Gabriel. Gabriel has tie-ups with KYBSE Spain and Yamaha Motor Hydraulic Systems. Japan as well.

Proximity to the various OEM plants ensures low transportation costs and quick service
Gabriel has seven manufacturing plants spread across the country's major automobile belts. As the company supplies to all the domestic and foreign OEMs operating in India except HMCL has spread its manufacturing facilities in vicinity of all the OEMs. This will enable the company to supply the OEMs without a time lag and as per the demand. This would ensure higher sales to the customers along with minimum transportation costs. This would help both topline as well as margins.

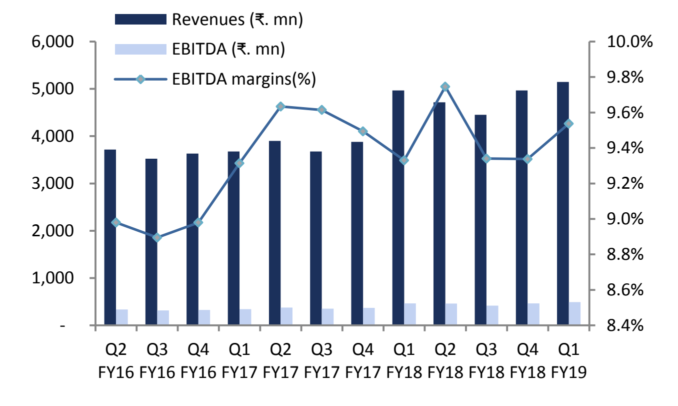
Plant location in vicinity of OEMs



Source: Company, LKP Research

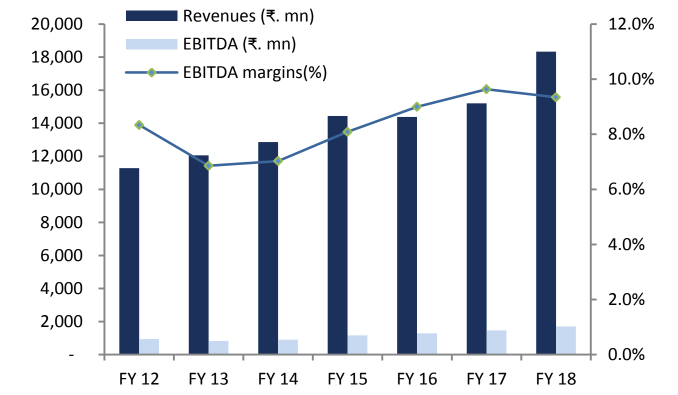
Improving profitability and healthy return ratios make an attractive case
Gabriel has been continuously improving its EBITDA margins to the tune of 250 bps over the past 5 years on sheer expansion of business in both OEM and Aftermarkets and end costumer portfolio on the back of increasing contribution from the CV and PV segments as compared to 2W (63%/26%/11% in FY 15 as compared to 58%/27%/15% for 2W/PVs/CVs currently). Gabriel is now functioning at a capacity utilization of 75-80% which points towards higher operating leverage in occurrence of higher demand which we expect hereon, mainly on the PV and CV sides. The company has maintained steady capex in the range of ₹ 30-40cr mainly for maintenance purpose. However, for FY 19E-20E, Gabriel will spend ₹ 1.5 bn for Brownfield operations at their Sanand plant towards HMSI's expansion. Also a capex of ₹ 40 cr is planned for backward integration into the piston rod manufacturing at their Devas plant. This capex is expected to be funded through internal accruals and to normalize post FY 20E. On the other hand the company has been constantly reducing its debt with Net D/E at 0.46x in FY11 to 0.05 in FY18. A clean balance sheet and healthy return ratios at 23.8% ROCE and 18% ROE for an auto ancillary are quite commendable. Going forward, with client vertical specific drivers remaining intact, Gabriel will see an era of double digit margins and sound bottomline growth. Higher tax rates starting from FY17 (~29-30%) on the back of tax benefit withdrawal at their Parwanoo, HP plant may get offset to a great extent on demand revival and margin strengthening. This may result into significant FCF generation which is already in a strong positive territory

Revenues and profitability trend (quarterly)



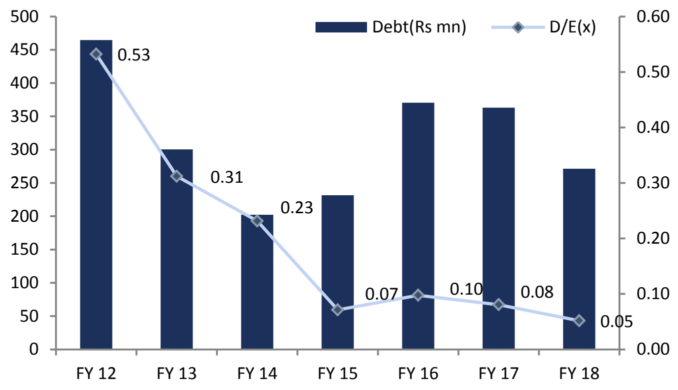
Source: Company, LKP Research

Revenues and profitability trend (annual)



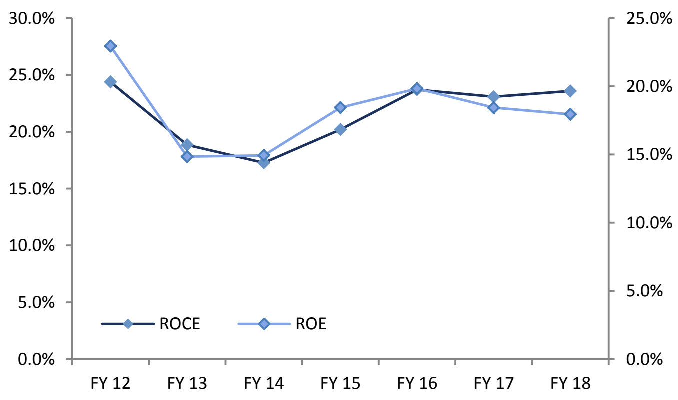
Source: Company, LKP Research

Financial leverage



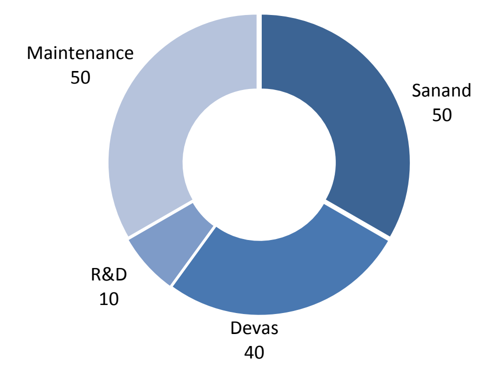
Source: Company, LKP Research

Return ratios



Source: Company, LKP Research

Capex break-up FY 2019-20 (₹. Cr)



Source: Company, LKP Research

Outlook and valuation

Gabriel being one of the strongest players in the shock absorbers space having a wide customer base in very well-diversified client verticals stands to benefit out of the current uptick in the auto industry. With solid technological support from KONI and KYB, market leadership in some of the business verticals (CV) & strong presence in others, strategically located manufacturing facilities, evolving Aftermarkets and exports business we see Gabriel anchored on a strong wicket in the ensuing years. With significant growth opportunities in the form of rural markets growing well and new launches from its clients coupled with gaining single source vendor status from most of them is the key driver for growth. With the upcoming emission norms of BS VI, the company will benefit from the pre-buying of CVs. The higher capex outlay for HMSI will lend it a great level of momentum in financials. The capacity utilization level may come off a bit from current 75%, on expanded capacities, but will provide ample amount of scope to bounce back by boosting operating leverage through constant order flow from HMSI and other clients which would offer strength to offset adverse RM price movement, thus improving profitability. The company has significantly reduced their debt and has turned itself into a zero debt company. Gabriel with ~20% ROE and ~25% ROCE along with a good dividend payout ratio (20% in FY 18) is currently trading at just 14x FY20E earnings which looks very attractive to us and should be accumulated from current levels for a one year price target of ₹ 193.

Financials

Income statement

YE Mar (₹.mn)	FY 17	FY 18	FY 19E	FY 20E
Total Revenues	**15,206**	**18,332**	**20,823**	**22,816**
Raw Material Cost	10,844	13,106	14,785	16,154
Employee Cost	1,112	1,377	1,520	1,666
Other Exp	1,112	1,377	1,520	1,666
EBITDA	**1,465**	**1,712**	**2,124**	**2,441**
EBITDA Margin(%)	9.6%	9.3%	10.2%	10.7%
Other Income	58	71	55	60
Depreciation	353	383	455	515
EBIT	**1,112**	**1,329**	**1,669**	**1,926**
EBIT Margin(%)	7.3%	7.3%	8.0%	8.4%
Interest	39	29	9	5
PBT	**1,131**	**1,371**	**1,715**	**1,981**
PBT Margin(%)	7.4%	7.5%	8.2%	8.7%
Tax	301	429	514	594
PAT	**830**	**942**	**1,200**	**1,387**
PAT Margins (%)	5.5%	5.1%	5.8%	6.1%
Exceptional items	0	0	0	0
Adj PAT	**830**	**942**	**1,200**	**1,387**
Adj PAT Margins (%)	5.5%	5.1%	5.8%	6.1%

Key Ratios

YE Mar	FY 17	FY 18	FY 19E	FY 20E
Per Share Data (₹)				
Adj. EPS	5.8	6.6	8.4	9.7
CEPS	8.2	9.2	11.5	13.2
BVPS	31.3	36.5	42.9	50.2
DPS	1.2	1.3	1.7	1.9
Growth Ratios (%)				
Total revenues	5.7%	20.6%	13.6%	9.6%
EBITDA	13.2%	16.9%	24.0%	14.9%
PAT	10.1%	13.5%	27.4%	15.5%
EPS Growth	10.1%	13.5%	27.4%	15.5%
Valuation Ratios (X)				
PE	23.0	20.3	15.9	13.8
P/CEPS	0.1	0.1	0.1	0.1
P/BV	4.2	3.6	3.1	2.6
EV/Sales	1.3	1.0	0.9	0.8
EV/EBITDA	13.3	11.2	9.0	7.7
Operating Ratios (Days)				
Inventory days	44.2	41.5	39.0	42.0
Recievable Days	50.8	55.6	54.0	56.0
Payables day	51.5	52.8	57.0	60.0
Net Debt/Equity (x)	0.08	0.05	0.04	0.03
Profitability Ratios (%)				
ROCE	23.1%	23.6%	25.3%	24.9%
ROE	18.4%	18.0%	19.5%	19.2%
Dividend payout	20.5%	20.3%	20.0%	20.0%
Dividend yield	0.9%	1.0%	1.3%	1.5%

Source: Company, LKP Research

Balance sheet

YE Mar (₹. mn)	FY 17	FY 18	FY 19E	FY 20E
Equity and Liabilities				
Equity Share Capital	144	144	144	144
Reserves & Surplus	4,358	5,105	6,017	7,071
Total Networth	**4,502**	**5,249**	**6,161**	**7,215**
Total debt	77	72	62	57
Net Deferred Tax	141	198	218	238
Long term provisions	97	117	167	217
Current Liab & Prov				
Trade payables	2,147	2,650	3,081	3,501
Short term provisions	171	161	201	241
Other current liabilities	552	560	590	620
Total current liab and privs	2,869	3,371	3,872	4,362
Total Equity & Liabilities	**7,686**	**9,007**	**10,480**	**12,089**
Assets				
Net block	2,829	2,926	3,571	3,656
Capital WIP	18	78	98	298
Other non current assets	44	53	73	93
Short term provisions	171	161	201	241
Total fixed assets	**3,601**	**3,416**	**4,141**	**4,486**
Cash and Bank	40	180	229	615
Inventories	1,312	1,491	1,580	1,859
Trade receivables	2,118	2,791	3,252	3,751
Loan, Advances & others	286	199	179	159
Other current assets	46	307	327	347
Total current Assets	**4,085**	**5,591**	**6,339**	**7,603**
Total Assets	**7,686**	**9,007**	**10,481**	**12,090**

Cash Flow

YE Mar (₹ mn)	FY 17	FY 18	FY 19E	FY 20E
PBT	1,127	1,371	1,715	1,981
Depreciation	353	383	455	515
Interest	39	29	9	5
Chng in working capital	114	-218	-49	-287
Tax paid	-244	-441	-514	-594
Other operating activities	-31	-86	0	0
Cash flow from operations (a)	**1,358**	**1,038**	**1,616**	**1,620**
Capital expenditure	-498	-536	-1,120	-800
Chng in investments	-478	168	-20	-21
Other investing activities	23	43	0	0
Cash flow from investing (b)	**-1,225**	**-635**	**-1,290**	**-921**
Free cash flow (a+b)	**133**	**403**	**326**	**699**
Inc/dec in borrowings	-27	-3	40	45
Dividend paid (incl. tax)	-205	-230	-288	-333
Interest paid	-41	-28	-9	-5
Other financiang activities	-171	-2	-20	-20
Cash flow from financing (c)	**-444**	**-263**	**-277**	**-313**
Net chng in cash (a+b+c)	**-311**	**140**	**48**	**386**
Closing cash & cash equivalents	**41**	**181**	**229**	**615**

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