

Tactically stepping up EV play, robust growth lies ahead

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.

- FY22 revenue mix – ~65% 2-W, 3-W, ~22% PV, ~13% CV & railways
- FY22 market share – 25% in 2-W, 3-W, 23% in PV, 85% in CV & railways
- On-boarded EV players in 2-W, 3-W space & is sole supplier for Ola Electric

Q4FY22 Results: GIL posted muted Q4FY22 results.

- Net sales for the quarter came in at ₹ 684 crore, up 13% QoQ
- Margins declined 140 bps sequentially to 5.5%
- PAT rose 5% QoQ to ₹ 26.9 crore, supported by higher other income

What should investors do? The stock price has de-grown at ~3% CAGR from ~₹ 129 levels (May 2017), underperforming Nifty Auto index.

- We retain **BUY**; EV proof product profile & prominent EV OEMs on-board

Target Price and Valuation: Rolling over our valuations, we now value GIL at 15x P/E on FY24E for a revised target price of ₹ 140/share (earlier target price ₹ 170).

Key triggers for future price performance:

- We build 11.2% net sales CAGR in FY22-24E on new client addition and expected pickup in sales volumes across all segment over FY22-24E
- EV-proof products; along with major EV players as clients with leading market share in EV suspension space (~>= 50% market share)
- Stabilised RM price, cost focus, increasing share of aftermarket and exports from current levels to aid margin improvement to 7.0% by FY24E. This coupled with controlled working capital cycle and net debt free b/s to result in improvement in return ratios profile with RoCE seen at 15.6% by FY24E
- Net cash b/s (~₹ 280 crore cash & liquid investments); ~17% of market cap

Alternate Stock Idea: Apart from GIL, in our OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,045

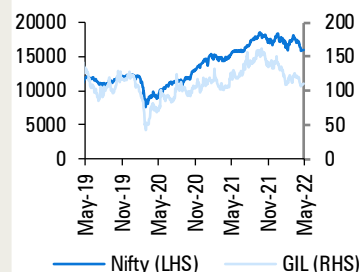
Particulars

Particulars	₹ crore
Market capitalisation	1,637.8
Total Debt (FY22P)	11.1
Cash & Investment (FY22P)	286.1
EV (₹ crore)	1,362.9
52 week H/L (₹)	168 / 102
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	55.0	55.0	55.0	55.0
FII	3.3	1.0	1.2	1.3
DII	6.8	7.1	7.3	9.2
Other	35.0	36.9	36.5	34.5

Price Chart



Recent event & key risks

- Posted muted Q4FY22 results
- **Key Risk:** (i) slower than expected pickup in export market, (ii) lower than expected gross margin recovery amid stable RM prices

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,077	1,870	1,700	2,334	9.1%	2,634	2,884	11.2%
EBITDA	178	138	108	148	0.5%	171	202	16.9%
EBITDA Margins (%)	8.6	7.4	6.3	6.3		6.5	7.0	
Net Profit	95	85	60	90	1.9%	111	133	22.0%
EPS (₹)	6.6	5.9	4.2	6.2		7.7	9.3	
P/E	17.2	19.3	27.2	18.3		14.8	12.3	
RoNW (%)	16.1	13.0	8.7	11.7		13.0	13.9	
RoCE (%)	22.0	14.0	9.0	13.4		14.4	15.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- GIL surpassed our annual estimates on the topline as well as PAT front
- Subdued margin performance was the real disappointment from the quarterly results. Margin decline was largely tracking pressure on gross margins, which declined ~110 bps in Q4FY22
- GIL, however, has cash rich b/s, EV immune product profile with suspension solutions already being supplied to new auto OEMs like Ola Electric
- Higher other income (₹ 10.8 crore), aided PAT increase for the quarter

Q4FY22 Earnings Conference Call highlights

- Demand outlook for PV & CV is healthy amid improving chip availability and cyclical upswing in commercial vehicle domain. The 2-W space, particularly in the domestic market, witnessed muted demand prospects whereas exports witnessed good traction. GIL, however, was able to increase its market share across all segments on a YoY basis
- The company incurred ₹ 66.8 crore of capex in FY22 towards tech centre as well as new 4-W projects. Capex spend of FY22 also includes expansion of casting plant leading to 2x of normal capacity (currently 300 tons/ month)
- Margins remained muted due to a rise in steel prices, which rose abruptly and same is being recovered from customers. The management said that ~85% hiked prices have been recovered. This may be visible in Q2FY23. Freight costs for Q4FY22 was ~₹ 42 crore vs ~₹ 29.7 crore in Q4FY21
- Exports were effected in Q4FY22 due to muted operations at Volkswagen-Russia amid geopolitical crisis in Russia
- During the quarter the company added Stellantis (a global company) as client and is in active discussion with the same in the PV domain
- The company is focusing on increasing content with existing OEMs (like Royal Enfield, TVS, Bajaj, etc) & has successfully captured >50% market share in EV domain with OLA & Hero Electric added as clients. Supply to Hero Electric would start from FY26-27 at an annual run-rate of ₹ 250 crore/annum
- The company guided for ~₹ 120 crore of capex for FY23 of which ~₹ 20-30 crore would be for maintenance and balance for growth. Further working capital efficiency is expected to be improved further
- Currently supplied to EV players is ~2-3% of overall revenue pie
- For FY22, growth in topline (37% YoY) for due commodity was ~8-9% and rest was related to volume growth

Co forecasts PV, CV to grow by 10%, ~25% respectively, whereas 2W to largely remain flat for FY22

Exports de-grew QoQ due to effect of geopolitical crisis and reduced operation in Russian region

Overall market share in the PV space has increased to 23% vs. 20% in past with aim to take it to 28% in coming years

The company already invested in new capacity expansion in E2W space to fulfil new client's demands

Utilisation rated for 2-W, PV, CV at 65%, 65%, 70%, respectively

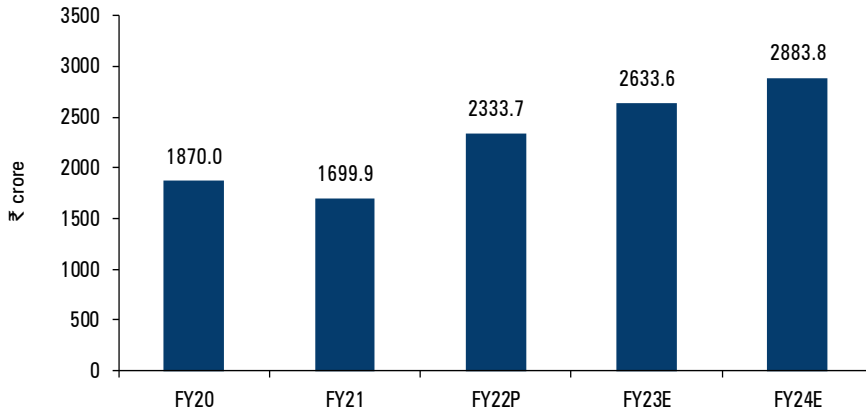
Exhibit 1: Marquee relationship with OEMs



Source: Company, ICICI Direct Research

Financial story in charts

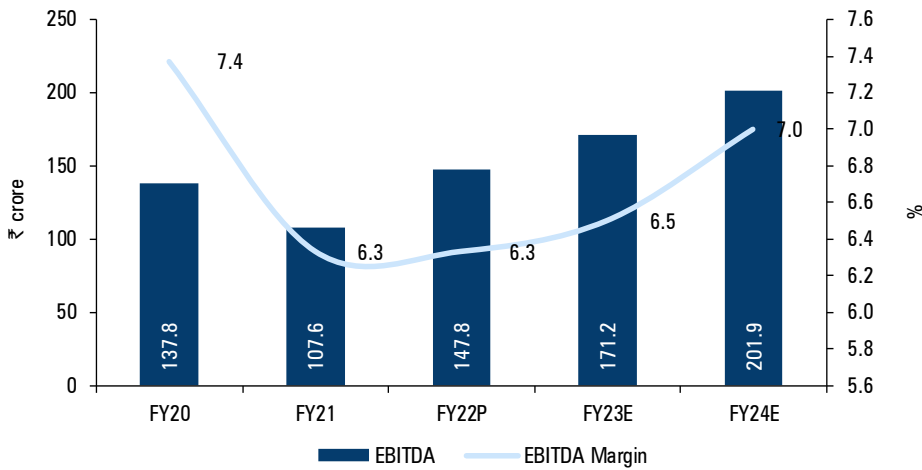
Exhibit 2: Trend in topline



GIL seen posting 11.2% net sales CAGR over FY22-24E

Source: Company, ICICI Direct Research

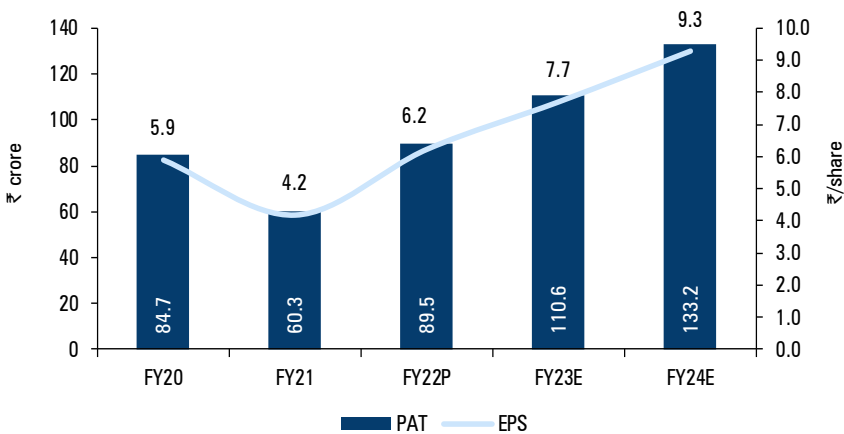
Exhibit 3: Trend in margins



Margins seen returning to 7.0% levels by FY24E on cost reduction and localisation efforts, mix improvements and operating leverage gains

Source: Company, ICICI Direct Research

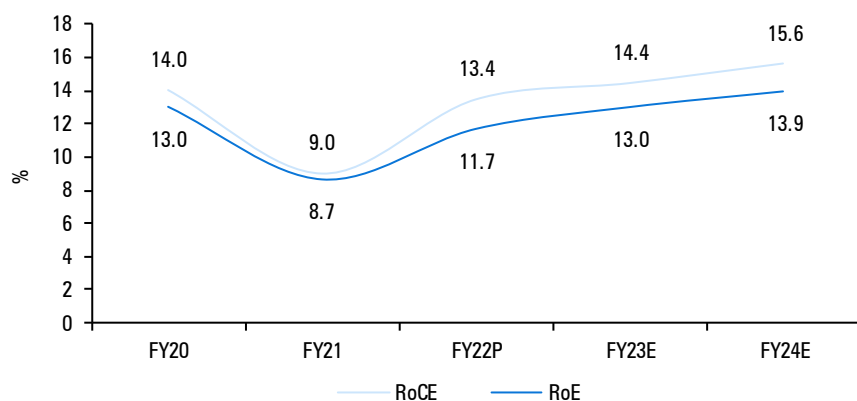
Exhibit 4: Trend in profitability



We expect PAT to grow to ₹ 133.2 crore by FY24E

Source: Company, ICICI Direct Research

Exhibit 5: Trend in return ratios



We expect GIL to clock 15.6% RoCE in FY24E

Source: Company, ICICI Direct Research

Exhibit 6: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2,077	13.3	6.6	0.9	17.2	8.7	16.1	22.0
FY20	1,870	(9.9)	5.9	(10.8)	19.3	11.0	13.0	14.0
FY21	1,700	(9.1)	4.2	(28.9)	27.2	12.8	8.7	9.0
FY22P	2,334	37.3	6.2	48.5	18.3	9.2	11.7	13.4
FY23E	2,634	12.9	7.7	23.6	14.8	8.0	13.0	14.4
FY24E	2,884	9.5	9.3	20.4	12.3	6.4	13.9	15.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Net Sales	1699.9	2333.7	2633.6	2883.8
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	1,699.9	2,333.7	2,633.6	2,883.8
Growth (%)	-9.1	37.3	12.9	9.5
Raw Material Expenses	1,265.3	1,786.3	2,027.9	2,206.1
Employee Expenses	147.4	159.7	171.2	187.4
Other Operating Expense	179.6	240.0	263.4	288.4
Total Operating Expenditure	1,592.3	2,186.0	2,462.4	2,681.9
EBITDA	107.6	147.8	171.2	201.9
Growth (%)	-21.9	37.3	15.9	17.9
Depreciation	42.4	41.4	44.9	49.2
Interest	6.6	4.3	3.9	3.5
Other Income	19.2	24.4	25.5	28.8
PBT	77.9	126.5	147.9	178.0
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	17.6	36.9	37.3	44.9
PAT	60.3	89.5	110.6	133.2
Growth (%)	-28.9	48.5	23.6	20.4
EPS (₹)	4.2	6.2	7.7	9.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	60.3	89.5	110.6	133.2
Add: Depreciation	42.4	41.4	44.9	49.2
(Inc)/dec in Current Assets	-110.9	-106.6	-63.5	-67.1
Inc/(dec) in CL and Provisions	184.6	76.0	49.7	58.0
Others	29.4	5.3	3.9	3.5
CF from operating activities	205.7	105.6	145.5	176.7
(Inc)/dec in Investments	62.3	-64.7	8.0	-77.0
(Inc)/dec in Fixed Assets	-54.6	-66.7	-120.0	-60.0
Others	2.5	-1.6	0.0	0.0
CF from investing activities	10.3	-133.1	-112.0	-137.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	5.1	-1.8	-1.0	-1.0
Dividend paid & dividend tax	-19.5	-26.6	-29.0	-32.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	-2.9	3.3	0.0	0.0
CF from financing activities	-17.2	-25.1	-30.0	-33.2
Net Cash flow	198.8	-52.6	3.5	6.4
Opening Cash	56.8	255.5	202.9	206.4
Closing Cash	255.5	202.9	206.4	212.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	14.4	14.4	14.4	14.4
Reserve and Surplus	681.9	752.4	837.9	942.3
Total Shareholders funds	696.3	766.8	852.3	956.7
Total Debt	12.9	11.1	10.1	9.1
Deferred Tax Liability	10.5	14.5	14.5	14.5
Minority Interest / Others	5.6	0.0	0.0	0.0
Total Liabilities	725.3	792.3	876.8	980.3
Assets				
Gross Block	815.3	889.4	999.7	1,069.7
Less: Acc Depreciation	462.6	504.0	548.8	598.0
Net Block	352.7	385.4	450.9	471.8
Capital WIP	27.7	20.3	30.0	20.0
Total Fixed Assets	380.4	405.8	480.9	491.8
Investments	30.0	94.7	86.7	163.7
Inventory	196.5	210.0	216.5	237.0
Debtors	293.8	382.4	432.9	474.0
Loans and Advances	36.0	21.9	24.7	27.1
Other Current Assets	10.3	28.9	32.6	35.7
Cash	255.5	202.9	206.4	212.8
Total Current Assets	792.1	846.1	913.1	986.7
Current Liabilities	457.3	530.3	577.2	632.1
Provisions	27.4	30.5	33.2	36.3
Current Liabilities & Prov	484.7	560.7	610.4	668.4
Net Current Assets	307.4	285.3	302.7	318.3
Others Assets	7.7	6.7	6.7	6.7
Application of Funds	725.3	792.3	876.8	980.3

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	4.2	6.2	7.7	9.3
Cash EPS	7.1	9.1	10.8	12.7
BV	48.5	53.4	59.3	66.6
DPS	0.9	1.6	1.8	2.0
Cash Per Share (Incl Invst)	19.9	20.7	20.4	26.2
Operating Ratios (%)				
EBITDA Margin	6.3	6.3	6.5	7.0
PAT Margin	3.5	3.8	4.2	4.6
Inventory days	42.2	32.8	30.0	30.0
Debtor days	63.1	59.8	60.0	60.0
Creditor days	98.2	82.9	80.0	80.0
Return Ratios (%)				
RoE	8.7	11.7	13.0	13.9
RoCE	9.0	13.4	14.4	15.6
RoIC	15.3	21.9	22.3	25.5
Valuation Ratios (x)				
P/E	27.2	18.3	14.8	12.3
EV / EBITDA	12.8	9.2	8.0	6.4
EV / Net Sales	0.8	0.6	0.5	0.4
Market Cap / Sales	1.0	0.7	0.6	0.6
Price to Book Value	2.4	2.1	1.9	1.7
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.1	1.2	1.2
Quick Ratio	0.7	0.8	0.8	0.8

Source: Company, ICICI Direct Research

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Sell: <-15%



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