

## Well poised for profitable growth, inexpensive valuation

**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.

- FY23 revenue mix – ~63% 2-W, 3-W, ~23% PV, ~12% CV & railways
- FY23 market share – 32% in 2-W, 3-W, 23% in PV, 89% in CV & railways

**Q4FY23 Results:** The company posted a steady set of Q4FY23 numbers.

- Net sales for the quarter came in at ₹ 737 crore, up 3.7% QoQ
- EBITDA came in at ₹ 52.1 crore with margins at 7.1%, flat QoQ
- PAT came in at ₹ 33.7 crore, up 15.8% QoQ (aided by higher other income)

**What should investors do?** GIL's stock price has grown at ~2.5% CAGR from ~₹ 150 levels (May 2018), underperforming the Nifty Auto index in that timeframe.

- We maintain **BUY** rating on GIL amid EV proof product profile, leadership position in E-2-W, 3-W & CV space, persistent focus on increasing PV share, foray into premium segment offering (i.e. sunroof systems); strong capital efficiency (RoCE at 18%+) & debt free b/s (cash surplus at ~₹ 300 crore)

**Target Price and Valuation:** Introducing FY25E & rolling over valuations, we now value GIL at ₹ 225 i.e. 17x P/E (<1x PEG) on FY25E EPS of ₹ 13.1 per share.

### Key triggers for future price performance:

- Tracking dominant market share across categories, leadership position in electric OEM space (2-W/3-W), presence in new model launches by OEMs, ramp up of exports, we build 10.6% net sales CAGR over FY23-25E
- EV-proof products; along with leading market share in EV suspension space (~≥ 80% market share in high-speed scooters). Marquee clients include Ola Electric, Hero Electric, Ather, Ampere, Mahindra Electric among others
- Stabilised RM price, focus on core 90 programme and operating leverage to aid margin improvement to 8% by FY25E (GIL's endeavour is to attain double digit margins). Return ratios are seen improving to ~20% by FY25E
- Focus on developing newer technologies like semi predictive suspensions finding application in luxury cars (typically in cars costing >₹ 30 lakh)

**Alternate Stock Idea:** Apart from GIL, in our auto coverage we like MCIE.

- Focused on growth capex in India and efficiencies at European operations
- BUY with a target price of ₹ 520

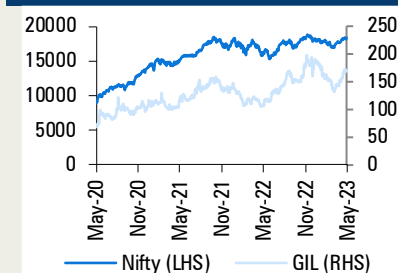
### Particulars

Particulars	₹ crore
Market capitalisation	2,471.1
Total Debt (FY23P)	9.4
Cash & Investment (FY23P)	304.5
EV (₹ crore)	2,176.0
52 week H/L (₹)	201 / 104
Equity capital (₹ crore)	14.4
Face value (₹)	1.0

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	55.0	55.0	55.0	55.0
FII	1.4	2.6	2.6	2.9
DII	9.3	11.0	11.2	11.1
Other	34.4	31.4	31.2	31.0

### Price Chart



### Recent event & key risks

- Posted steady Q4FY23 results.
- Key Risk:** (i) Slower than expected uptick in sales growth over FY23-25E (ii) Pricing pressure from OEMs limiting margin recovery

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	2,076.5	1,870.0	1,694.8	2,332.0	2,971.7	10.1%	3,286.7	3,638.2	10.6%
EBITDA	177.9	137.8	102.5	146.0	213.7	4.5%	249.8	291.1	16.7%
EBITDA Margins (%)	8.6	7.4	6.0	6.3	7.2		7.6	8.0	
Net Profit	95.0	84.7	60.3	89.5	132.3	7.0%	156.9	188.9	19.5%
EPS (₹)	6.6	5.9	4.2	6.2	9.2		10.9	13.1	
P/E	26.0	29.2	41.0	27.6	18.7		15.7	13.1	
RoNW (%)	16.1	13.0	8.7	11.7	15.2		16.0	17.0	
RoCE (%)	22.0	14.0	8.3	13.2	18.4		19.5	20.5	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Posted steady Q4FY23 result

- On a full year basis, the company largely performed on expected lines. Net sales for the quarter came in at ₹ 737 crore, up 3.7% QoQ
- EBITDA came in at ₹ 52.1 crore with margins at 7.1%, flat QoQ. Margin performance was steady with gross margin declining 40 bps QoQ largely tracking a change in product mix
- Board of directors also recommended a final dividend of ₹ 1.65 per share

### Q4FY23 Earning Conference call highlight

- The management informed about industry to grow single digit in FY24E primarily led by PV & CV space, albeit on a higher base
- The management said it had crossed ~₹ 100 crore mark in exports despite clampdown at VW Russia and expects to improve it, going forward
- The management informed about significant market share gains in 2-W space with share improving from 25% in FY22 to 32% in FY23 tracking outperformance at key clients like TVS, HMSI and EV traction. Also, the management said its market share in EV suspension space at ~80%+ in high-speed scooter category. Further, the management said Honda Shine 100 suspension was under production and has 100% share of business (SoB)
- The management further informed about 100% SoB in TVS iQube & majority share in prominent names like Ola, Ather, etc. Further it has started supplies of front forks to Hero Cycles for its e-bikes and expects good traction on the export front for this product (particularly European region)
- The management informed about good traction being witnessed on PV front with new launched like Jimny, XUV 700, Thar, etc and has ~35% market share in UV suspension market. Further, the management expects market share in PV space to improve from 23% in FY23 to 30% in coming years
- The management added that it had expanded into suspension for high-speed trains (Vande Bharat, electric locomotive, etc)
- On its recent acquisition, the management added there were order wins from Kia & Hyundai for its sunroof systems and it is in discussions with other OEMs. Further, the company is the second domestic producer for sunroof system in India and expects sales to grow significantly. The management expects the plant to start from Q4FY24 in Chennai
- The management expects E-2W demand to consolidate temporary due to reduction in subsidy amount based on response received from its clients
- The management informed about ~60% market share in 3-W space and is supplying suspension to E-3W OEMs like M&M, Kinetic, Bajaj, etc. Further the management added that it had entered tyre & tube trading business for 3-W space leveraging upon its brand name and dominant market position
- The management expects 0.5-1% margin improvement to come from its Core 90 programme amid double digit margin target over the medium to long term
- The management expects the revenue mix from PV, 2-W to improve to 30%, 55% in the coming three years vs. 23%, 63%, respectively, as of FY23
- Capex for FY24E is expected to be ~₹ 100-150 crore (including sunroof plant). Peak revenue capability is at ~₹ 4,000 crore on current capacity (excluding revenue from sunroof venture)

### Highlights from recent acquisition call:

The management informed about entering into JV with Inalfa (second largest sunroof maker) for making sunroof for OEMs

The management said total five to six players are operating globally in this space with only one operating in India

The management added that sunroof penetration in SUV space was at ~40% with same being minimal in entry level cars

Inalfa supplies to luxury OEMs like JLR, Bentley, BMW, Mercedes, Porsche, Volvo, etc in Europe; Hyundai, Kia, Honda, Nissan in Korea & Ford, GM, etc in US

The management informed about initial capacity being ~2 lakh units and doubling it to 4 lakh units in few years (~three to four years) with peak revenue capability of ~₹ 1,000 crore

The management informed about sunroof currently being imported and will localise components in India and primarily focus on Indian markets due to logistic issues while exporting

The management informed about royalty of ~4-5% to be paid to Inalfa with respect to TLA entered for sunroof components

The management expects to break even within a year of operation and margins to be in healthy double digits

## Key presentation Highlights

### Exhibit 1: Presence in domestic UV space

#### GABRIEL PRESENCE: UTILITY VEHICLES

- Manufacturing Facility: Chakan & Khandas
- R&D Centre: Pune
- Product Portfolio: McPherson struts, Gas Shock Absorbers, Steering Dampers
- Commenced the technology of FSD (Frequency Selective Damping) in damper supplies for key customers

Share of Utility Vehicle sales in Gabriel Passenger Vehicle business- 64%

Gabriel India Share of Business in Total Utility Vehicle Sales-35%

Source: Company, ICICI Direct Research

### Exhibit 2: Presence in E-2-W/3-W space

**14%**

Maharashtra's EV sales accounted for 14% of the overall share of EVs registered for the quarter

**80%**

GIL SOB in 2W sales (Q4, FY 22-23)

**300%**

GIL growth in EV-2W segment FY 22-23 from FY 21-22

**Top Models GIL presence**

- Okinawa praise ●
- Ampere Magnus-ex ●
- Hero optima ●
- Ola S1 pro ●
- Ather 450x ●
- TVS iQube ●

Source: Company, ICICI Direct Research

### Exhibit 3: Presence in railway

#### GABRIEL PRESENCE- RAILWAYS

#### Damper for Various Bogie of Railroad

- Manufacturing Facility: Chakan, Pune
- R&D Centre: Pune
- Product Portfolio: Damper for Rajdhani/Shatabdi Coach, ICF Conventional coach, EMU/MEMU Coach & Diesel Locomotive
- 1<sup>st</sup> Indigenous Company to develop damper for Rajdhani/ Shatabdi Coach(LHB) & Vande Bharat Coach

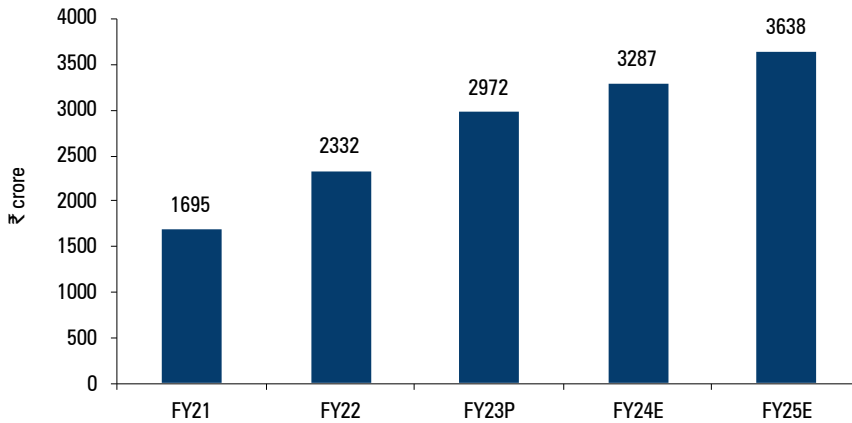
**New Damper Introduced**

**Key Railway Customers**

Source: Company, ICICI Direct Research

## Financial story in chart

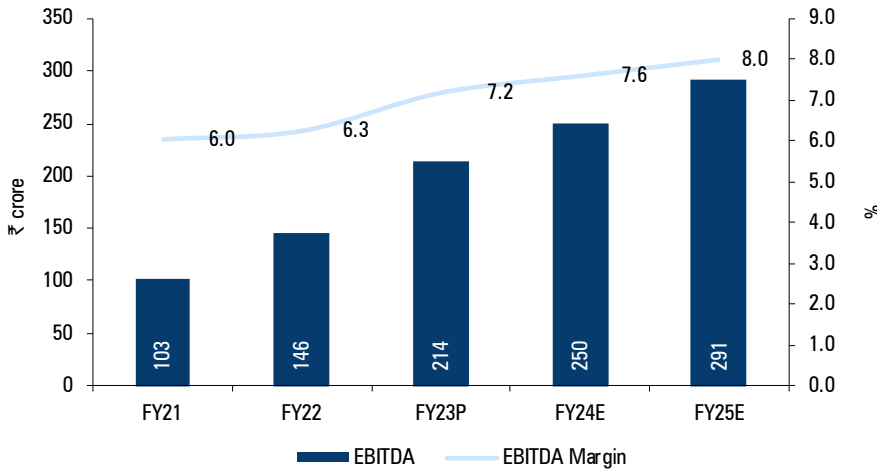
Exhibit 4: Trend in topline



*GIL is seen posting 10.6% net sales CAGR over FY23- 25E; albeit on a high base of FY23*

Source: Company, ICICI Direct Research

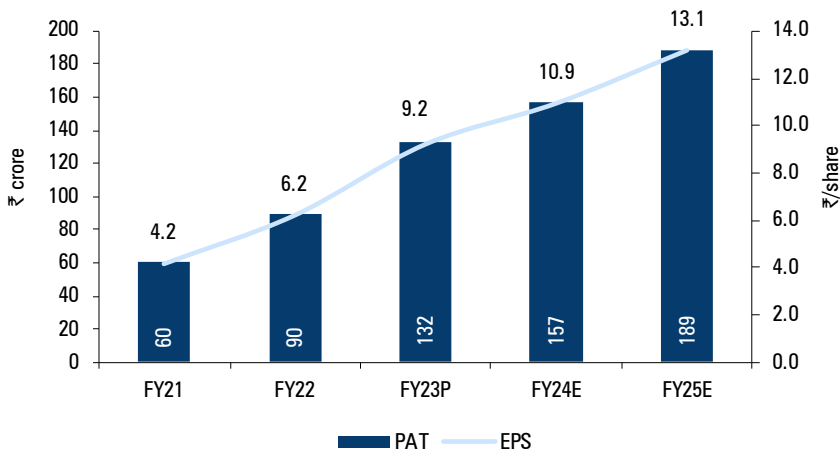
Exhibit 5: Trend in margins



*Margins are seen returning to 8% levels by FY25E on cost reduction and localisation efforts, mix improvements and operating leverage gains*

Source: Company, ICICI Direct Research

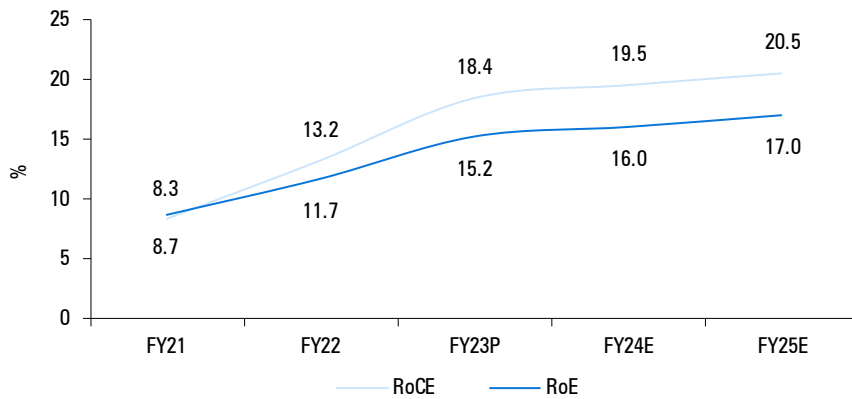
Exhibit 6: Trend in profitability



*We expect PAT to grow to ₹ 189 crore by FY25E; at a CAGR of 19.5% over FY23-25E*

Source: Company, ICICI Direct Research

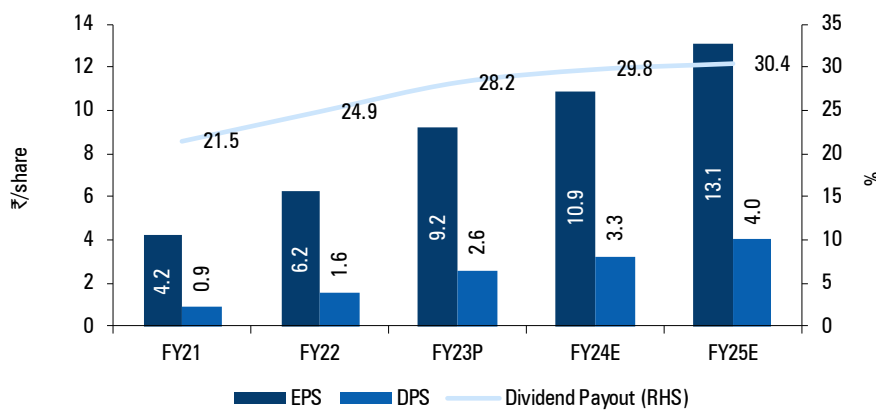
Exhibit 7: Trend in return ratios



We expect GIL to clock 20%+ RoCE starting FY24E

Source: Company, ICICI Direct research

Exhibit 8: Trend EPS & DPS



GIL is expected to maintain healthy payout ratio of ~30%

Source: Company, ICICI Direct research

Exhibit 9: Trend in return ratios

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ crore)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY19	2,077	13.3	6.6	0.9	26.0	13.4	16.1	22.0
FY20	1,870	(9.9)	5.9	(10.8)	29.2	17.0	13.0	14.0
FY21	1,695	(9.4)	4.2	(28.9)	41.0	21.6	8.7	8.3
FY22	2,332	37.6	6.2	48.5	27.6	15.0	11.7	13.2
FY23P	2,972	27.4	9.2	47.8	18.7	10.2	15.2	18.4
FY24E	3,287	10.6	10.9	18.6	15.7	8.7	16.0	19.5
FY25E	3,638	10.7	13.1	20.4	13.1	7.4	17.0	20.5

Source: Company, ICICI Direct research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Net Sales	2332.0	2971.7	3286.7	3638.2
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>2,332.0</b>	<b>2,971.7</b>	<b>3,286.7</b>	<b>3,638.2</b>
Growth (%)	37.6	27.4	10.6	10.7
Raw Material Expenses	1,786.3	2,268.8	2,497.9	2,765.0
Employee Expenses	159.7	183.1	203.8	218.3
Other Operating Expense	240.0	306.1	335.2	363.8
Total Operating Expenditure	2,186.0	2,758.0	3,036.9	3,347.2
<b>EBITDA</b>	<b>146.0</b>	<b>213.7</b>	<b>249.8</b>	<b>291.1</b>
Growth (%)	42.4	46.4	16.9	16.5
Depreciation	41.4	48.6	53.7	58.5
Interest	4.3	4.6	4.2	3.7
Other Income	26.2	17.4	19.5	20.2
<b>PBT</b>	<b>126.4</b>	<b>177.8</b>	<b>211.5</b>	<b>249.0</b>
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	36.9	45.5	53.3	63.8
<b>PAT</b>	<b>89.5</b>	<b>132.3</b>	<b>156.9</b>	<b>188.9</b>
Growth (%)	48.5	47.8	18.6	20.4
<b>EPS (₹)</b>	<b>6.2</b>	<b>9.2</b>	<b>10.9</b>	<b>13.1</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	89.5	132.3	156.9	188.9
Add: Depreciation	41.4	48.6	53.7	58.5
(Inc)/dec in Current Assets	-112.2	-16.4	-160.0	-135.2
Inc/(dec) in CL and Provisions	90.5	-28.3	140.2	71.9
Others	-23.2	-0.5	-15.4	-16.5
<b>CF from operating activities</b>	<b>86.0</b>	<b>135.7</b>	<b>175.5</b>	<b>167.7</b>
(Inc)/dec in Investments	-69.6	2.2	-52.0	-30.0
(Inc)/dec in Fixed Assets	-66.7	-98.2	-100.0	-75.0
Others	24.5	18.9	19.5	20.2
<b>CF from investing activities</b>	<b>-111.8</b>	<b>-77.1</b>	<b>-132.5</b>	<b>-84.8</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-1.8	-1.7	-2.0	-2.0
Dividend paid & dividend tax	-26.6	-42.0	-50.8	-61.2
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	3.3	8.6	0.0	0.0
<b>CF from financing activities</b>	<b>-25.1</b>	<b>-35.1</b>	<b>-52.8</b>	<b>-63.2</b>
<b>Net Cash flow</b>	<b>-50.9</b>	<b>23.4</b>	<b>-9.8</b>	<b>19.7</b>
Opening Cash	253.6	202.7	226.1	216.2
<b>Closing Cash</b>	<b>202.7</b>	<b>226.1</b>	<b>216.2</b>	<b>235.9</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	14.4	14.4	14.4	14.4
Reserve and Surplus	752.4	855.9	966.2	1,097.6
<b>Total Shareholders funds</b>	<b>766.8</b>	<b>870.3</b>	<b>980.5</b>	<b>1,112.0</b>
Total Debt	11.1	9.4	7.4	5.4
Deferred Tax Liability	14.5	15.9	15.9	15.9
Minority Interest / Others	0.0	0.0	0.0	0.0
<b>Total Liabilities</b>	<b>792.3</b>	<b>895.6</b>	<b>1,003.8</b>	<b>1,133.3</b>
<b>Assets</b>				
Gross Block	889.4	978.3	1,088.0	1,163.0
Less: Acc Depreciation	504.0	552.6	606.3	664.8
Net Block	385.4	425.8	481.7	498.1
Capital WIP	20.3	29.6	20.0	20.0
<b>Total Fixed Assets</b>	<b>405.8</b>	<b>455.4</b>	<b>501.7</b>	<b>518.1</b>
Investments	94.6	92.4	144.4	174.4
Inventory	210.0	224.8	270.1	299.0
Debtors	382.4	383.7	495.3	598.1
Loans and Advances	29.2	29.5	32.6	36.1
Other Current Assets	0.0	0.0	0.0	0.0
<b>Cash</b>	<b>202.7</b>	<b>226.1</b>	<b>216.2</b>	<b>235.9</b>
Total Current Assets	824.2	864.1	1,014.2	1,169.1
Current Liabilities	530.3	499.0	630.3	697.7
Provisions	30.5	33.5	42.3	46.8
Current Liabilities & Prov	560.7	532.4	672.6	744.6
<b>Net Current Assets</b>	<b>263.5</b>	<b>331.6</b>	<b>341.6</b>	<b>424.6</b>
Others Assets	28.6	16.3	16.3	16.3
<b>Application of Funds</b>	<b>792.3</b>	<b>895.6</b>	<b>1,003.8</b>	<b>1,133.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	6.2	9.2	10.9	13.1
Cash EPS	9.1	12.6	14.7	17.2
BV	53.4	60.6	68.2	77.4
DPS	1.6	2.6	3.3	4.0
Cash Per Share (Incl Invst)	20.7	22.2	25.1	28.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	6.3	7.2	7.6	8.0
PAT Margin	3.8	4.5	4.8	5.2
Inventory days	32.9	27.6	30.0	30.0
Debtor days	59.9	47.1	55.0	60.0
Creditor days	83.0	61.3	70.0	70.0
<b>Return Ratios (%)</b>				
RoE	11.7	15.2	16.0	17.0
RoCE	13.2	18.4	19.5	20.5
RoIC	21.5	29.4	28.5	29.5
<b>Valuation Ratios (x)</b>				
P/E	27.6	18.7	15.7	13.1
EV / EBITDA	15.0	10.2	8.7	7.4
EV / Net Sales	0.9	0.7	0.7	0.6
Market Cap / Sales	1.1	0.8	0.8	0.7
Price to Book Value	3.2	2.8	2.5	2.2
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.2	1.3
<b>Quick Ratio</b>	<b>0.7</b>	<b>0.8</b>	<b>0.8</b>	<b>0.9</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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