

Retail Equity Research  
**Gabriel India Ltd**  
Automobile - Auto Ancillary

**Reduce**

BSE CODE : 505714 NSE CODE: GABRIEL  
BLOOMBERG CODE: GABR IN SENSEX : 38,970

12M Investment Period Rating as per small Cap  
**CMP Rs133 TARGET Rs126 RETURN -6%** ↓  
(Closing: 22-05-19)

**KEY CHANGES:**

**TARGET** ↓

**RATING** ↓

**EARNINGS** ↓

**Lower car sales deteriorate product mix**

Gabriel India Ltd (GIL) is one of the leading manufacturers of ride control products viz Shock Absorbers, Front Forks in automotive segments, with a market share of 25 % ( 2W, PV ) & 75 % ( CV ).

- Q4FY19 revenue grew by muted 2.4%, mainly due to slowdown in the overall automobile segment & absence of major export and replacement demand.
- EBITDA margin contracted by 260bps due to higher material cost, lower product mix and Rupee depreciation.
- Despite getting new orders from Royal Enfield Classic and Honda for supplying of Front fork, lower sales in the passenger vehicle segment is deteriorating the product mix.
- The new Capex initiated for supplying Front Fork to Honda Motorcycle & Scooter Ltd (HMSI) and backward integration of Piston Rods is expected to commence operation from Q4FY20.
- Considering the near term headwinds in the Auto sector and margin dilution due to lower PV share, we lower our earning estimates by 14%/13% for FY20/FY21 respectively.
- We value GIL at P/E of 14x (previous 15x) FY21E EPS and downgrade our rating to reduce from Hold.

**Industry growth to remain muted**

Q4FY19 revenue grew by muted 2.4%, mainly due to slowdown in the overall automobile segment & absence of major export and replacement demand. Segment wise revenue contribution for 2W, PV and CV stood at 69% 18% and 13% respectively. New order in the 2W segment and growth in the CV and railway business supported the revenue. During the quarter GIL has also lost market share due to phasing out of Wagon R model and the company has not received orders for the new Wagon R. EBITDA margin contracted by 260bps due to higher RM cost owing to its lag effect, lower product mix & Rupee depreciation.

**Revenue share from 2W segment to improve..**

GIL's revenue share from 2W is expected to improve to 64% by FY21 from 62% in FY19, as its key customers; TVS Motors, Yamaha and Royal Enfield (RF) has lined up new launches for FY20. To further leverage, GIL has incurred two major capex for FY19 that was basically a) the maiden order from Honda for Front Forks from Sanand plant, which is expected to begin its supply in Q4FY20 and b) the backward integration of Piston Rods. Also we understand from the channel checks that it has secured one-third of the HMSL Front Fork business. Further, GIL is No.1 contender for the new launches from its key customers, Yamaha, Suzuki and RF which are likely to be awarded soon.

**Leveraging the clientele in the PV segment**

GIL's 25% revenue comes from Maruti Suzuki and is sole vendor to Brezza and other Maruti models. The last to add in the kitty was the new Alto and GIL is the sole supplier of shock absorbers and SOP of which will start from August 2019. To further leverage GIL has won incremental order from Volkswagen & Skoda under its new Platform, which is going to commence production in 2021. It has also won orders from Mahindra for the new XUV500 platform as well as for the Thar. And on the electric front the company has won orders from Peugeot Citroen along with Bajaj Electric.

**Valuations**

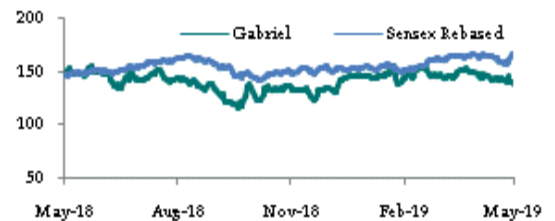
Despite negative impact of higher raw material price and slow pick up in the Auto sector we believe new orders, R&D & automation will be the growth catalyst for the next two years. However considering the near term headwinds in the auto sector and margin dilution due to lower PV share (especially from Maruti Suzuki) we lower our earning estimates by 14% & 13% for FY20 & FY21 respectively. We believe that the slowdown to continue till H1FY20 and hence we value GIL at a P/E of 14x (previous 15x) FY21E EPS and downgrade our rating to reduce from Hold with a revised target of 126.

**Company Data**

Market Cap (cr)	Rs.1,909
Enterprise Value (cr)	Rs.1,911
Outstanding Shares (cr)	14.4
Free Float	47.3%
Dividend Yield	1.1%
52 week high	Rs.159
52 week low	Rs.115
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs1

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	54.0	52.8	52.8
FII's	11.9	10.9	10.7
MFs/Insti	0.7	2.2	3.5
Public	33.3	34.5	33.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-4.0%	3.0%	-6.5%
Absolute Sensex	8.6%	11.4%	12.6%
Relative Return	-12.5%	-8.4%	-19.0%



Standalone (cr)	FY19A	FY20E	FY21E
Sales	2,076	2,236	2,540
Growth (%)	13.3	7.7	13.6
EBITDA	178	201	231
EBITDA Margin(%)	8.6	9.0	9.1
PAT Adj.	95	110	129
Growth (%)	0.7	15.8	17.2
Adj.EPS	6.6	7.7	9.0
Growth (%)	0.7	15.8	17.2
P/E	20.1	17.4	14.8
P/B	3.2	2.8	2.4
EV/EBITDA	10.7	9.5	8.3
ROE (%)	16.9	17.1	17.4
D/E	0.0	0.0	0.0

Saji John  
Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
<b>Sales</b>	<b>510</b>	<b>497</b>	<b>2.7</b>	<b>1,020</b>	<b>944</b>	<b>8.1</b>
<b>EBITDA</b>	<b>34</b>	<b>46</b>	<b>-26.0</b>	<b>77</b>	<b>87</b>	<b>-10.8</b>
EBITDA margins	6.7	9.3	-260bps	7.6	9.2	-160bps
Depreciation	10	11	-1.9	20	20	3.0
<b>EBIT</b>	<b>24</b>	<b>36</b>	<b>-33.2</b>	<b>57</b>	<b>67</b>	<b>-14.9</b>
Interest	0.8	0.7	-	1.4	1.2	-
Other Income	2.7	2.5	-	5.3	3.9	34.6
Exceptional Items	0	0	-	0	0	-
<b>PBT</b>	<b>26</b>	<b>37</b>	<b>-31.2</b>	<b>61</b>	<b>70</b>	<b>-12.7</b>
Tax	8.4	11.7	-28.3	21	22	-4.2
Share of profit from Associate	0	0	0	0	0	0
Minority Interest	0	0	0	0	0	0
<b>Reported PAT</b>	<b>17</b>	<b>26</b>	<b>-32.7</b>	<b>39</b>	<b>47</b>	<b>-16.7</b>
Adjustments	0	0	-	0	0	-
<b>Adj PAT</b>	<b>17</b>	<b>26</b>	<b>-32.7</b>	<b>39</b>	<b>47</b>	<b>-16.7</b>
No. of Shares	14.4	14.4	-	14.4	14.4	-
<b>EPS (Rs)</b>	<b>1.2</b>	<b>1.8</b>	<b>-32.7</b>	<b>2.7</b>	<b>3.3</b>	<b>-16.7</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	2,420	2,670	2,236	2,539	(7.6)	(4.9)
EBITDA	226	259	201	231	(11.1)	(8.1)
Margins (%)	9.3	9.7	9.0	9.1	(30bps)	(60bps)
Adj. PAT	128	148	110	129	(14.0)	(12.8)
EPS	8.9	10.3	7.4	8.6	(14.0)	(12.8)

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Sales</b>	<b>1,521</b>	<b>1,833</b>	<b>2,076</b>	<b>2,236</b>	<b>2,539</b>
% change	5.7	20.6	13.3	7.7	13.6
<b>EBITDA</b>	<b>146</b>	<b>171</b>	<b>178</b>	<b>201</b>	<b>231</b>
% change	13.1	17.2	3.8	13.2	14.8
Depreciation	34	37	40	41	43
EBIT	111	133	137	160	187
Interest	4	3	3	4	4
Other Income	6	7	9	9	10
<b>PBT</b>	<b>113</b>	<b>137</b>	<b>143</b>	<b>164</b>	<b>193</b>
% change	18.2	21.7	4.2	14.9	17.2
Tax	30	43	48	54	64
Tax Rate (%)	0.27	0.31	0.34	0.33	0.33
<b>Reported PAT</b>	<b>83</b>	<b>94</b>	<b>95</b>	<b>110</b>	<b>129</b>
Adj.	0	0	0	0	0
<b>Adj. PAT</b>	<b>83</b>	<b>94</b>	<b>95</b>	<b>110</b>	<b>129</b>
% change	9.1	14.1	0.7	15.8	17.2
No. of shares (cr)	14	14	14	14	14
<b>Adj EPS (Rs)</b>	<b>5.8</b>	<b>6.6</b>	<b>6.6</b>	<b>7.7</b>	<b>9.0</b>
% change	9.1	14.1	0.7	15.8	17.2
DPS (Rs)	1.3	1.4	1.5	1.5	1.5

### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	146	175	183	205	236
Non-cash adj.	-2	4	-1	1	0
Changes in W.C	-28	-56	-19	-79	-86
<b>C.F. Operation</b>	<b>119</b>	<b>123</b>	<b>164</b>	<b>127</b>	<b>151</b>
Capital exp.	-51	-53	-91	-41	-20
Change in inv.	-73	-37	18	-3	-50
Other invest.CF	-2	0	0	0	0
<b>C.F - Investment</b>	<b>-125</b>	<b>-89</b>	<b>-73</b>	<b>-46</b>	<b>-70</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	-3	-1	-6	5	0
Dividends paid	-21	-20	-21	-21	-21
Other finance.CF	-2	0	0	0	0
<b>C.F - Finance</b>	<b>-25</b>	<b>-20</b>	<b>-27</b>	<b>-16</b>	<b>-21</b>
Chg. in cash	-31	14	64	65	61
Closing cash	4	18	82	147	208

### BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	4	18	82	147	208
Accounts Receivable	212	279	284	306	348
Inventories	130	149	165	177	201
Other Cur. Assets	106	86	74	83	94
Investments	28	65	47	50	100
Gross Fixed Assets	577	624	669	714	759
Net Fixed Assets	283	293	298	302	303
CWIP	2	8	54	50	25
Intangible Assets	5	4	3	4	3
Def. Tax (Net)	-16	-20	-19	-20	-20
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>754</b>	<b>881</b>	<b>988</b>	<b>1,099</b>	<b>1,262</b>
Current Liabilities	215	265	296	306	348
Provisions	27	28	29	31	35
Debt Funds	8	7	1	6	6
Other Liabilities	54	56	63	68	77
Equity Capital	14	14	14	14	14
Reserves & Surplus	437	511	585	675	783
Shareholder's Fund	451	525	599	688	797
<b>Total Liabilities</b>	<b>754</b>	<b>881</b>	<b>988</b>	<b>1,099</b>	<b>1,262</b>
BVPS	<b>31</b>	<b>37</b>	<b>42</b>	<b>48</b>	<b>55</b>

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	9.6	9.3	8.6	9.0	9.1
EBIT margin (%)	7.3	7.3	6.6	7.1	7.4
Net profit mgn.(%)	5.4	5.1	4.6	4.9	5.1
ROE (%)	19.9	19.3	16.9	17.1	17.4
ROCE (%)	16.1	13.7	11.6	11.9	12.0
<b>W.C &amp; Liquidity</b>					
Receivables (days)	48.5	48.9	49.5	48.2	47.0
Inventory (days)	40.5	38.8	38.1	38.7	37.6
Payables (days)	66.1	66.8	67.9	68.2	65.2
Current ratio (x)	1.9	1.8	1.9	2.1	2.2
Quick ratio (x)	1.2	1.1	1.2	1.5	1.6
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.7	3.1	3.2	3.2	3.4
Total asset T.O (x)	2.1	2.2	2.2	2.1	2.2
Int. covge. ratio (x)	28.7	46.1	46.6	38.0	44.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	1.3	1.0	0.9	0.9	0.8
EV/EBITDA (x)	13.1	11.2	10.7	9.5	8.3
P/E (x)	23.1	20.3	20.1	17.4	14.8
P/BV (x)	4.3	3.7	3.2	2.8	2.4

## Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
16th October 2018	Buy	150
28th February 2019	Hold	155
22nd May 2019	Reduce	126

## Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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