

CMP: INR 190

Rating: Buy

Target Price: 252

Stock Info

BSE	505714
NSE	GABRIEL
Bloomberg	GABR.IN
Reuters	GABR.NS

Sector	Auto Components & Equipments
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Face Value (INR)	1.00
Equity Capital (INR Mn)	144
Mkt Cap (INR Mn)	27,270
52w H/L (INR)	201/ 115
Avg Yearly Vol (in 000')	94

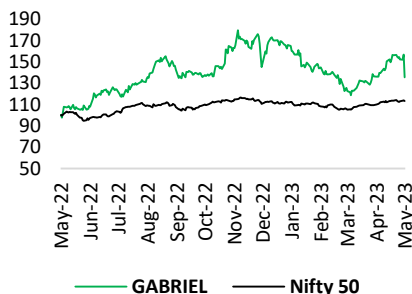
Shareholding Pattern %

(As on March, 2023)

Promoters	55
FII	2.91
DII	11.08
Public & Others	31.01

Stock Performance (%)	1m	3m	12m
Gabriel India Ltd.	15.1	13.4	52.9
Nifty	2.9	5.7	13.0

Gabriel India Ltd. Vs Nifty



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We visited the Gabriel India(GIL) Plant and Tech center which was organized in Chakan on 22nd Thursday 2023. The event was attended by the sell side and buy side analysts of the Auto Sector. The session was handled by the plant head and management of the company. Gabriel India continues to maintain its position as the leading manufacturer of shock absorbers for commercial vehicles, boasting an impressive 80% market share. In the two-wheeler segment, Gabriel holds a 32% market share, while in the passenger vehicle segment, it is steadily approaching a 30% market share despite competition from global peers.

Investment Rationale:

Leading supplier of shock absorbers for EV players: Gabriel India remains the top shock absorber manufacturer for commercial vehicles, holding an impressive 80% market share. When it comes to passenger vehicle launches, Gabriel enjoys a monopoly, supplying shock absorbers to models such as Grand Vitara, Brezza, Jimny, and Hyryder, securing a 100% share of the business. A similar trend can be observed in the electric two-wheeler segment, where Gabriel's market share has risen by over 70%. They are supplying to Ola, TVS, Ather, Ampere, and Okinawa. Furthermore, Gabriel has ventured into the e-bicycle market, which is gaining popularity in Europe. They have even received an export order from Hero Cycles and are optimistic about the future demand. Notably, the pricing of their e-bicycles is much more competitive compared to electric bikes, falling within the range of Euro 2000-3000.

First Indigenous Company to develop damper for Vande Bharat Coach: Gabriel India secures exclusive supply for LHB coaches and Vande Bharat Express, showcasing their dominance in the Indian market. Their foray into electric locomotives strengthens their position, with multiple new railway orders anticipated. The current sales contribution of ~5% is expected to increase going forward.

Strong global presence with resilient performance: Gabriel India targets market expansion in Latin America, Africa, and North America's aftermarket, while securing an order from ISUZU for the CV segment in Thailand and Indonesia. Their sales in FY23 surpassed INR 100 cr for the second year in a row, setting a new record for exports. Moreover, GIL working with Volkswagen on the development of additional export models.

Valuation & View:

The contribution of two-wheelers, including electric vehicles (EVs), is expected to increase from 32% to over 40%. Similarly, the current MS of PV at 30% is planned to reach 40% or higher. Aiming for a dominant 60% MS in 2w, the segment mix is projected to be around 55% for PV, 30% for 2w, with a small portion dedicated to e-bicycles. Additionally, the company aims for double-digit export figures, approximately 10%, driven by technological advancements. With a focus on outperforming the industry, they plan to lead in PC and SUV growth, while enhancing their market share in EVs. We expect GIL revenue, EBITDA, and PAT to grow at a CAGR of 15%, 25%, and 28%, respectively, over FY23-25e. **We have a Buy rating on the stock with the Target Price of 252**

Initiating Coverage Report

Exhibit 1: Financial overview

Year-end March								
(INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)	
FY22	23,320	1,459	895	6.2	6.3	17.82	30.5	
FY23	29,717	2,137	1,325	9.2	7.2	11.93	20.6	
FY24E	34,947	3,051	2,098	14.6	8.7	8.34	13.0	
FY25E	39,599	3,561	2,424	16.9	9.0	6.85	11.3	
FY26E	44,138	4,195	2,777	19.3	9.5	5.47	9.8	

Source: Arihant Research, Company Filings

Plant Visit Takeaways

A lot of R&D activities are being conducted in India due to its unique market characteristics. The application of rules that are effective elsewhere may not necessarily work in India, considering the slight variations in factors such as monsoon conditions, road infrastructure, and driver behavior.

Gabriel India continues to maintain its position as the leading manufacturer of shock absorbers for commercial vehicles, boasting an impressive 80% market share. In the two-wheeler segment, Gabriel holds a 32% market share, while in the passenger vehicle segment, it is steadily approaching a 24% market share despite competition from global peers.

R&D

The R&D team is based in Pune and Hosur, and they have sufficient expertise, particularly in the B2B sector. This has solidified Gabriel's position as a market leader in shock absorbers and expanded its reach under a broader scope. Gabriel also maintains robust relationships due to their strong market presence. The company has 60 employees in R&D centre.

ESG

The company has 2-megawatt solar panel roofs including for car parking and gets 40% power during a sunny day. Also, the company gets in group captive scheme in Chakan, Indore, and Pune almost 50%. The company is facing challenges in Gujarat and Gurgaon as a captive scheme is not available over there.

By 2025, the company strives to achieve Zero Waste to Landfill, Water Neutrality, and meet 50% of our energy needs from renewable sources, working towards Carbon Neutrality in our operations.

Suspension & Shock Absorber

The company aspires to be ranked among the top five global manufacturers of shock absorbers, aiming for a prominent position in the industry. The company is at 8 number globally. In a comparison of the segment PV, Railway, and CV are already in the top 5 suspension players. There is a gap in PV in terms of global requirements due to technology.

Competitors like KYB Corporation Hitachi automotive systems, and ZF Sachs.

PV MS in suspension 25%, Tenco 40% MS

Clientele

The company provides suspension systems to global automotive brands such as **(VW) with a 100% supply rate, as well as Skoda, M&M, Maruti, Toyota, and PSA**. However, in India, only passive suspension systems are available due to the significant price difference compared to semi-active systems. The company is actively exploring export opportunities, including partnerships with an Indian player and exporting 50% of its products to Mexico. Furthermore, the company has established itself as the sole supplier for VW in Russia, ensuring zero quality issues.

Semi-active is very efficient (shock absorber 10 milliseconds response) but difficult for India. FSD is still a passive suspension.

CV

The company got the best supplier award from DAF from the Netherlands and extend DAF to Brazil. The company supplies DAF with one truck and is already in discussion for one more truck (suspension).

2W

Two-wheelers still has scope to increase MS as Honda Shine 100cc-125cc 35%, Hero still zero, Yamaha- 20%, Bajaj 20-25% upside, TVS 70% MS. Top 5 customers would be 40%.

China plus one strategy

The company is getting benefits. OEMs are moving away from China due to the mandate.

Exports

The company aims to significantly increase its exports in the future. In the FY2023, it achieved sales exceeding INR 100 crores and is targeting a 10% revenue contribution from exports. The company has been successful in generating profitable exports and is currently engaged in discussions with VW to expand its business partnership. In terms of exports, the company is currently involved in supplying products to DAF, ISUZU Thailand, and some customers in the US. Export is largely for trucks.

Plant

For Bajaj they have one plant in Chakan and Nashik.

Trading business

The company has a 2% revenue contribution in segment and aftermarket 12% it and zero investment depending on the demand like shock absorbers and tyres. The tyre is doing good and going forward target to increase by three digits.

Railways

While the company does have a presence in the railway sector with a single product line, the excitement level is not particularly high as the margins are good but the top line will not be that high as the growth rate will be low. There is an existing order that Gabriel has secured, but it is uncertain whether they will continue to receive future orders as another company might be chosen instead. The demand for coaches in this sector is relatively low. Shock absorber 18-20 per coach and 20 locomotives. 2 other players also working for the Vande Bharat.

Margin

The company is aiming for an improvement in EBITDA margin in FY24 and aspiring for a double-digit EBITDA margin in the medium to long term led by the CORE90 initiative.

Realization Growth

The inclusion of Maruti-Jimny and M&M vehicles in the product lineup necessitates the requirement of multiple shock absorbers, which in turn contributes to the growth and reliability of the company.

Sunroof

The company's acquisition of Inalfa Gabriel Sunroof Systems Private Limited and technical collaboration with Inalfa Roof Systems Group will facilitate their entry into the automotive sunroof business. Inalfa, a leading global provider with a 25% market share, operates in 15 countries, generating around 2 billion euros in revenue. The company plans to reach the revenue target for the new venture of INR 1000 crores by the year 2030 while adding 100-120 Crores more in the venture. Targeting breakeven in the first year itself. Management is focusing on double-digit EBITDA margins from 2nd year of operations likely FY25. The company is already in discussion with M&M, and Tata as the model is coming in FY26-27 and 75% penetration in OEM.

Content per Vehicle

Railway content is very high but volume is smaller than CV, PV and two wheeler.

Technology

The technology-related costs are calculated by subtracting the product's net sales from the total sales, multiplied by a royalty import rate of 3%. It's a project base royalty.

Growth outlook

The company aims to achieve a growth rate of 8-9% in the passenger vehicle (PV) segment and 4-6% in the 2w segment, taking into account the lower base. The growth in these segments may also depend on the performance of the monsoon season. As for EV, last year witnessed significant growth, making it difficult to provide a precise estimate. In the CV segment, the company expects a growth rate of 10-12%. Gabriel is actively pursuing a technology-agnostic approach, introducing new products through JVs as part of their future plans. The company has a vision in the Top 5 globally.

Glimpse of Plant

Cabin Dampers



The company is actively working on advancing technologies that aim to create lighter products, minimize noise, and enhance the utilization of electronics in order to enhance suspension response time. Additionally, they have introduced cutting-edge damper technology to provide an improved user experience. In terms of process innovation, the company has made significant investments in robotics to streamline manufacturing processes and stands out as one of the leading companies in the suspension industry with a substantial number of robots.

This strategic move is expected to yield long-term benefits.

8 years warranty /unlimited km and zero free stroke design

Exporting to Netherlands and Brazil and two more locations

Front Suspension Strut



Gabriel dominates the aftermarket sector, holding approximately 40% of the market share for the products it sells through its outlets. The company enjoys a significant level of brand recognition specifically in the shock absorbers and struts category, which accounts for around 88% of its aftermarket sales. Gabriel is capitalizing on this strong brand reputation to introduce new products in the aftermarket. Key strategies employed by Gabriel include expanding its aftermarket sales, utilizing its existing relationships with OEMs and original equipment suppliers (OESs), targeting smaller cities, actively engaging with mechanics, establishing closer proximity to customers through retailers, and expanding its product range.

Front Strut



The company's business units include CV and railways, 2W and 3W, passenger cars, and aftermarket. Gabriel manufactures front forks and rear shock absorbers for 2W; McPherson struts and shock absorbers for passenger cars; cabin dampers, seat dampers, suspension shock absorbers for CVs, and shock absorbers for railway coaches.

The company's ride control products for various segments are marketed across the globe. GIL is supplying Tiago.

Source: Arianth Research, Company Filings

Glimpse of Plant

Hollow Piston Rod (22mm)



The Company has focused a lot on reducing carbon footprint in the manufacturing area. This was achieved by way of :
 Reduced material consumption in components such as the use of hollow strut rods.
 Conversion from electrically operated equipment to Gas fired equipment.

Hydraulic Rebound Stop (HRS) is applicable for passenger cars and SUVs as it reduces noise at extreme rebound strokes. We installed new manufacturing equipment as a response to this demand.

The rejection rate is 0.2% for the handle rod and 80% capacity utilization

Rear shock absorbers



With a rich experience in the 2 & 3-Wheelers segment, the Company has become a well-established player amongst 2W/3W EV players as well. Supplying front forks and rear shock absorbers to most of the premium OEMs

Supply shock absorbers for Linke Hofmaan Busch (LHB) coaches to the Indian Railways.



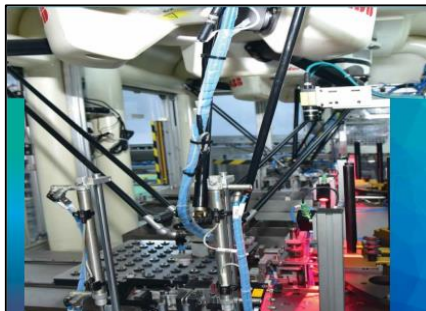
Tyre- Relaunching the tyre and tube business. Mainly in the 2W and 3W segments where the brand name is strong. It is sold Over The Counter.

Source: Aриhant Research, Company Filings

R&D Centre

Gabriel India Tech Centre at Chakan, Pune, is a world-class Product Engineering & Test facility for automotive shock absorber products in passenger cars, commercial vehicles and railway coaches.

- The Technology Centre includes following facilities for research-driven, customer centric innovation.
 - Servohydraulic Performance test rigs
 - Servohydraulic Durability test rigs.
 - Customised customer specific test rigs.
 - Noise, vibration and harshness-checking capability.
 - Vehicle noise evaluation track.
 - Corner module test rig.
 - Data acquisition systems
 - Analysis & Simulation software
 - Product Data Management (PDM) software
 - Mobile Damper Tuning (MDT) facility for vehicle development



Peers Competitors

Company Name	Price (INR)	MCap (INR Mn)	Sales (INR Mn) FY23	EBITDA (INR Mn) Mar'23	PAT (INR Mn) FY23	ROCE%	Basic EPS	P/E (X)
Gabriel India Ltd.	190	26,897	29,717	2,137	1,325	19.0%	9.2	20.59
Munjal Showa Ltd.	131	5,219	12,405	302	294	6.0%	7.4	18
Endurance Technologies Ltd.	1593	221,762	88,040	10,363	4,796	14.2%	34.1	46

S.No	Company	Products & Services	Revenue by segments	New product Launches	Capex (INR Mn)
1	Gabriel India	Involved in the manufacturing of a wide range of ride control products, including shock absorbers, struts and front forks. Advanced suspension and automation	2W/3W - 63% PC- 23% CVR- 12% Trading- 2%	TVS Motors – Raider, Jupiter 125 Mahindra 2W- Y4,Y5,J201 Bajaj Auto – R107, CNG EV customers – Various programs, OLA Electric, Ampere, Ather, Okinawa Maruti Suzuki: YXA, YFG,YWD,YOM Ashok Leyland- Phoenix, TML Intra & Mahindra New Bolero	26,976
2	Endurance Technologies	Engaged in the business of manufacturing and selling of aluminium die casting (including alloy wheel), suspension, transmission and braking products with operations spread across India.	Die Casting- 46.6% Suspension- 27% Disc Brake- 9.5% Alloy Wheel- 6.9% After Market- 4.9% Transmission- 4.3% Others- 0.8%	Focused on shock absorber business for 3-wheelers and supplying brakes to Mahindra Electric and Bajaj Auto, increasing margins for high-value-added parts such as ABS, upside-down front forks, and brake systems.	222,950
3	Munjal Showa	Includes Front Forks, Rear Cushions, Struts, and Gas Spring/Rear Door Lifters. 2W- Rear Shock Absorber, Front Shock Absorber 4W- Strut, Gas Spring	-	-	5,259

Source: Arihant Research, Company Filings

Income statement (INR mn)					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Gross Sales	23,320	29,717	34,947	39,599	44,138
Net Sales	23,320	29,717	34,947	39,599	44,138
YoY (%)	37.2	27.4	17.6	13.3	11.5
Adjusted RMC	17,863	22,688	26,185	28,885	32,403
YoY (%)	41.2	27.0	15.4	10.3	12.2
Personnel/ Employee benefit expenses	1,597	1,831	2,096	2,770	2,646
YoY (%)	8.3	14.7	14.5	32.2	(4.5)
<i>Manufacturing & Other Expenses</i>	<i>2,401</i>	<i>3061</i>	<i>3598</i>	<i>4353</i>	<i>4850</i>
YoY (%)	33.7	27.5	17.5	21.0	11.4
Total Expenditure	21,861	27,580	31,879	36,007	39,900
YoY (%)	37.3	26.2	15.6	13.0	10.8
EBITDA	1,459	2,137	3,051	3,561	4,195
YoY (%)	35.6	46.4	42.8	16.7	17.8
EBITDA Margin (%)	6.3	7.2	8.7	9.0	9.5
Depreciation	414	485	600	750	860
% of Gross Block	6.8	6.3	6.9	7.5	7.6
EBIT	1,046	1,652	2,451	2,813	3,335
EBIT Margin (%)	4.5	5.6	7.0	7.1	7.6
Interest Expenses	43	46	60	60	60
Non-operating/ Other income	262	173.9	187	231.4	222.4
PBT	1,265	1,780	2,578	2,984	3,497
Tax-Total	369	455	480	560	720
Adj. Net Profit	895	1,325	2,098	2,424	2,777
PAT Margin	3.8	4.5	6.0	6.1	6.3
Shares o/s/ paid up equity sh capital	144	144	144	144	144
Adj EPS	6.2	9.2	14.6	16.9	19.3

Balance sheet					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Equity Share Capital	144	144	144	144	144
Reserves & Surplus/ Other Equity	7524	8559	10249	12139	14306
Networth	7668	8703	10392	12283	14449
Unsecured Loans/ Borrowings/ Lease Liabilities	111	93.72	111	111	111
Total Debt	111	94	111	111	111
Total Funds Employed	7,779	8,796	10,503	12,394	14,560
Application of Funds					
Gross block	6,127	6,635	8,758	9,986	11,354
Less: depreciation	2,273	2,377	3,462	4,212	5,072
Net Fixed Assets	3,854	4,258	5,296	5,774	6,282
Capital WIP	203	296.42	327	343	360
Investments/ Notes/ Fair value measurement	838	795	1238	1438	1638
Current assets	8,636	8,931	10,184	12,037	14,328
Inventory	2,100	2,248.07	2,583	2,849	3,196
Debtors	3,824	3,837.15	4,512	5,113	5,699
Other Current Assets	2166	1771	2388	2507	2632
Bank	136	676	136	136	136
Cash	410	399	565	1,432	2,664
Current Liabilities/Provisions	5752	5484	6541	7198	7993
Creditors / Trade Payables	4762	4405	5,083	5,608	6,291
Liabilities	541	585	1,076	1,187	1,332
Provisions	305	335	336	353	370
Net Core Working Capital	1,162	1,681	2012	2355	2605
Net Current Assets	2,883	3,447	3,642	4,839	6,335
Deferred Tax Asset	-145	159.3	-145	-145	-145
Total Asset	13,531	14,281	17,044	19,592	22,698
Total Capital Employed	7,779	8,796	10,503	12,394	14,560

Source: Arihant Research, Company Filings

Cash Flow Statement					
Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,265	1,780	2,578	2,984	3,497
Adjustments: Add					
Depreciation and amortisation	414	485	600	750	860
Interest adjustment	43	46	60	60	60
Adjustments: Less					
Interest income on fixed income securities	-79.64	-108.05	-74.20	-74.20	-74.20
Profit/(loss) on sale of investments, net	-25.47	9.48	-25.47	-25.47	-25.47
Change in assets and liabilities	1,578	2,200	3138.75	3694.88	4318.11
Inventories	-134.94	-148.31	90.17	-266.28	-347.01
Trade receivables	-1046.2	-21.75	-360.25	-600.71	-586.08
Trade payables	903.53	-313.16	-448.65	524.12	683.02
Other Liabilities and provisions	53.18	42.41	159.73	127.75	162.23
Other Assets	-71.92	17.03	-113.70	-119.38	-125.35
Net cash from operating activities	965	1,364	1,986	2,800	3,385
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	-770.31	-920.12	-1098.93	-1243.92	-1385.45
Net Sale/(Purchase) of investments	-660.83	33.12	-169.72	-169.75	-169.75
Net cash (used) in investing activities	-442.48	-1038.31	-1,194	-1,339	-1,481
Interest expense	-28.37	-35.18	-60.40	-60.40	-60.40
Dividend paid	-180.33	-273.63	-461.57	-533.32	-611.02
Net cash (used) in financing activities	-240.79	-336.97	-521.97	-593.72	-671.42
Closing Balance	410	399	565	1,432	2,664
FCF	194	444	887	1,556	1,999
Capex as % of sales	3.3	3.1	3.1	3.1	3.1

Key Ratios					
Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Solvency Ratios					
Debt / Equity	0.01	0.01	0.01	0.01	0.01
Net Debt / Equity	-0.17	-0.20	-0.18	-0.24	-0.30
Debt / EBITDA	0.08	0.04	0.04	0.03	0.03
DuPont Analysis					
Sales/Assets	299.79	337.83	332.73	319.50	303.14
Assets/Equity	176	164	164	160	157
RoE	11.67	15.22	20.19	19.74	19.22
Per share ratios					
Reported EPS	6.2	9.2	14.6	16.9	19.3
Dividend per share	1.6	1.7	3.2	3.7	4.3
BV per share	53.4	60.6	72.3	85.5	100.6
Profitability ratios					
Net Profit Margin (PAT/Net sales)	3.84	4.46	6.00	6.12	6.29
Gross Profit / Net Sales	23.4	23.7	25.1	27.1	26.6
EBITDA / Net Sales	6.26	7.19	8.73	8.99	9.51
PAT / Net Sales	3.84	4.46	6.00	6.12	6.29
ROCE (%)	13.4	18.8	23.3	22.7	22.9
Activity ratios					
Inventory Days	42.9	36.2	36.0	36.0	36.0
Debtor Days	59.9	47.1	47.1	47.1	47.1
Creditor Days	97.3	70.9	70.9	70.9	70.9
Valuation ratios					
EV / EBITDA	17.82	11.93	8.34	6.85	5.47
P/E based Valuation:					
EPS	6.23	9.22	14.61	16.88	19.34
PE (x)	30.47	20.59	13.00	11.25	9.82
EV/EBITDA based Valuation:					
EBITDA	1459	2137	3051	3561	4195
EV	12404	18165	25935	30270	35661

Source: Arian Research, Company Filings

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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