

Passenger vehicle orders remain strong

CMP: INR 337

Rating: Buy

Target Price: INR 408

Stock Info

BSE	505714
NSE	GABRIEL
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Automotive Industry
Face Value (INR)	1
Equity Capital (INR mn)	144
Mkt Cap (INR mn)	48,250
52w H/L (INR)	359/ 129
Avg Yearly Vol (in 000')	615

Shareholding Pattern %

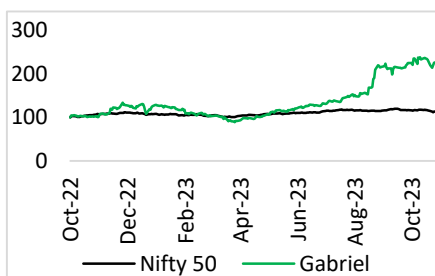
(As on September, 2023)

Promoters	55.00
FII	3.04
DII	11.72
Public & Others	30.25

Stock Performance (%)

	1m	3m	12m
Gabriel	2.7	53.1	108.4
Nifty 50	-0.5	-0.5	6.6

Gabriel Vs Nifty 50



The company achieved the highest-ever revenue for a quarter, Gabriel's consolidated revenue from operations stood at INR 8,644 Mn in Q2FY24 against our estimate of INR 8,860 Mn registering a growth 7.7% YoY/ 7.3% QoQ. EBITDA stood at INR 738 Mn, against our estimate of INR 760 Mn, registering a growth of 24.9% YoY / 7.7% QoQ. On the margins front, EBITDA margin expanded by 118 bps YoY/ 3 bps QoQ to 8.54%, in line with our estimate of 8.58%. Consolidated PAT saw an increase of 29.9% YoY /10.3% QoQ to INR 463 Mn in line with our estimate of INR 465 Mn.

Investment Rationale:

Global market penetration:The global expansion includes leveraging resources in Europe to explore opportunities in overseas markets, with notable export orders secured from DAF Netherlands and VW Russia. The company has won an order from ISUZU for the CV segment in Thailand and Indonesia. To enhance its global presence, the company is strategically focusing on increasing its presence in the aftermarket of Latin America, Africa, North America and Japan strengthening their international reach.

Strong segment mix: The company's segment mix reveals a positive shift, with a strong presence in the passenger car segment with a 7% growth and 10% growth in the commercial vehicle segment. The company has a dominant presence in the EV two-wheeler market, boasting an 80% MS due to its collaboration with major manufacturers such as Ola, TVS, Ather, and more.

Inalfa Sunroof: The company has effectively shipped first batch of sunroofs, which were assembled at its Chennai facility, and these sunroofs have been delivered to Hyundai .The initial capacity for Inalfa is 2,00,000 units, and the ramp-up will start from January. The company will use around 60% of the capacity in the first year. Following the successful stabilization of the first production line, the company is ready to consider expanding its capacity, if the need arise. The establishment of a second sunroof production line is estimated to take around 30 weeks and the current Chennai facility has sufficient space to accommodate this additional production line.

Outlook & Valuation:

The company expect gradual growth in the EV market. The company have plans for new product additions in FY25, including an e-bicycle front fork. The company aims to achieve a double-digit export margin within the next five years. Moving forward healthy improvement in the consolidated margins is also expected. **We expect Gabriel's revenue, EBITDA, and PAT to grow at a CAGR of 20.5%, 25.9%, and 28.1%, respectively, over We value the consolidated business at EV/EBITDA multiple of 9.34x to FY26E EBITDA of INR 4,750 Mn to FY26E EPS of INR per share 20.7. We used DCF model to arrive at a target price of INR 408 per share (Earlier target price of INR 291 per share) . Accordingly, we maintain our Buy rating on the stock.**

Exhibit 1: Financial Performance

Year-end March								
(INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)		EV/EBITDA	P/E (x)
FY22	23,337	1,477	895	6.23	6.33		31.90	30.33
FY23	29,718	2,137	1,306	9.10	7.19		21.82	37.05
FY24E	34,563	2,997	1,813	12.62	8.67		15.58	26.71
FY25E	41,545	3,851	2,405	16.74	9.27		11.86	20.13
FY26E	50,217	4,750	2,975	20.71	9.46		9.34	16.27

Source: Arihant Research, Company Filings

Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

Exhibit 2: Quarterly Result

INR Mn (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Net Sales	8,644.48	8,057.68	8,028.70	7.28%	7.67%
Material Cost	6,603.18	6,080.71	6,274.30	8.59%	5.24%
Change in Inventory	(96.61)	(55.12)	(92.60)	75.27%	4.33%
Gross Profit	1,944.69	1,921.85	1,661.80	1.19%	17.02%
Gross Margin (%)	22.50	23.85	20.70	-135 bps	180 bps
Personnel	541.64	496.66	455.40	9.06%	18.94%
Manufacturing & Other Expenses	858.05	850.06	800.40	0.94%	7.20%
EBITDA	738.22	685.37	591.20	7.71%	24.87%
EBITDA margin (%)	8.54	8.51	7.36	3 bps	118 bps
Non-operating income	45.91	46.44	29.40	-1.14%	56.16%
Depreciation	141.37	137.36	127.00	2.92%	11.31%
EBIT	596.85	548.01	464.20	8.91%	28.58%
EBIT Margin (%)	6.90	6.80	5.78	10 bps	112 bps
Interest Expenses	21.19	22.30	10.50	-4.98%	101.81%
PBT	621.57	572.15	483.10	8.64%	28.66%
Tax-Total	158.27	151.99	126.50	4.13%	25.11%
Tax Rate (%) - Total	25.46	26.56	26.19	-4.15%	-2.76%
Reported Net Profit	463.30	420.16	356.60	10.27%	29.92%
PAT Margin (%)	5.36	5.21	4.44	15 bps	92 bps
<i>Reported EPS (INR)</i>	3.23	2.93	2.48	10.27%	29.92%

Exhibit 3: Revenue mix

Segment wise Revenue	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
2W/3W	5,273	4,915	5,219	7.28%	1.04%
PV	2,161	1,934	1,766	11.75%	22.35%
CVR	1,037	1,047	883	-0.97%	17.46%
Trading	173	161	161	7.28%	7.67%
Channel wise revenue	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
OE	7,434	6,688	6,824	11.16%	8.94%
Replacement	1,037	1,047	963	-0.97%	7.67%
Exports	173	322	241	-46.36%	-28.22%
Aftermarket revenue	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
2W/3W	3,631	3,304	3,533	9.90%	2.78%
PC	3,112	2,981	2,810	4.38%	10.75%
CVR	778	806	642	-3.45%	21.13%
Trading	1,124	967	1,044	16.22%	7.67%

Source: Arihant Research, Company Filings

Gabriel India Ltd -Q2FY24 Concall KTAs

Financial Performance:

- Revenue stood at INR 8,644 Mn, with a 7.7% YoY and 7.3% QoQ growth .
- Consolidated PAT saw an increase of 29.9% YoY and 10.3% QoQ to INR 463 Mn.
- The debtor days and the inventory days have reduced.
- The channel mix is primarily composed of 86% Original Equipment (OE) and 12% aftermarket and emphasis is laid on maintaining OE dominance.
- The interim dividend paid is INR 1.5 per share which is almost 24% payout ratio.

Strong Market Presence:

- The company's presence extends to Ola- S1 Air, and the Gen 2, both of which have demonstrated a remarkable 100% usage of Gabriel suspension.
- New orders have also been secured from notable brands like Gogoro-PUZ , Ather- 450S and TICM- Montra L5 showcasing growing demand for their products.
- Going forward company's penetration in EV, two-wheelers remains to be strong with 80% market share.

Exports:

- Exports experienced a dip primarily due to lower shipments to Colombia.
- However, there is an expectation of production revival in the upcoming quarter.

Employee Cost Clarification:

- Employee cost is expected to revert to around INR 500 mn in Q3FY24, considering similar volumes.
- There is an impact of approximately INR 40 mn due to revisions and gratuity.

R&D Center in Europe Investments:

- The European R&D center focuses on future technology and generating intellectual property. The costs associated with it will be capitalized. Initial investment is not significant, focus is on testing equipment.
- The company plans to invest around INR 100-120 mn annually for this purpose.

PC Segment:

- Passenger car (PC) orders remain strong, especially for electric vehicles (EVs).
- In the first half, the company achieved a significant milestone, with the production of 2 million cars.
- The primary growth driver has been the SUV segment, in which Gabriel has a strong presence.
- The SUV segment witnessed a remarkable 7% growth, indicating a positive trend in the passenger car market.

UV Segment Growth:

- Utility Vehicle (UV) segment is outperforming other passenger car segments.
- The trend is expected to continue, with UVs projected to form 60-65% of the market.

CAPEX:

- For H1FY24 ,CAPEX stood at INR 350 mn. The total CAPEX commitment for FY24 is expected to be around INR 1,000 to 1,200 mn.

Sunroof Line:

- The company has successfully delivered its first batch of assembled Sunroofs supplying them to Hyundai.
- While initially focusing on the 2 lakh unit capacity, the plan remains unchanged.The second line will follow the stabilization of the first line, and if necessary, the company is prepared to explore further capacity.
- The lead time for establishing a second sunroof production line is expected to be approximately 30 weeks.
- The existing location in Chennai has enough space for the second line.
- The supply ramp-up mentioned includes Hyundai, and Kia's contribution will begin from January 2025.

Overall Outlook:

The company have plans for new product additions in FY25, including an e-bicycle front fork.The company expect to achieve double-digit operating margins after adjusting for all royalty payouts once operations stabilize. Segments like exports, aftermarket, and railways will contribute to margin improvement and aim to reach the 20-25% range.

Exhibit 4: Highest-ever Revenue achieved in this quarter

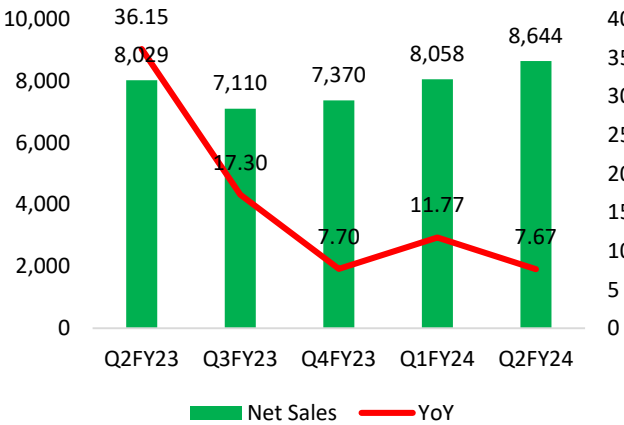


Exhibit 5: Healthy margins led by raw materials and price recovery

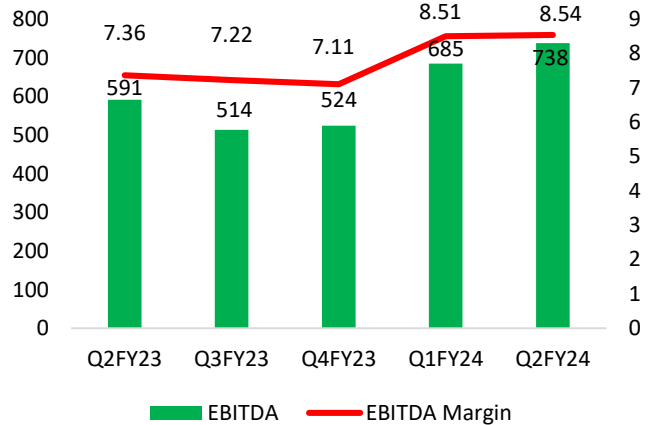


Exhibit 6: Profitability led by cost control and healthy growth across segments

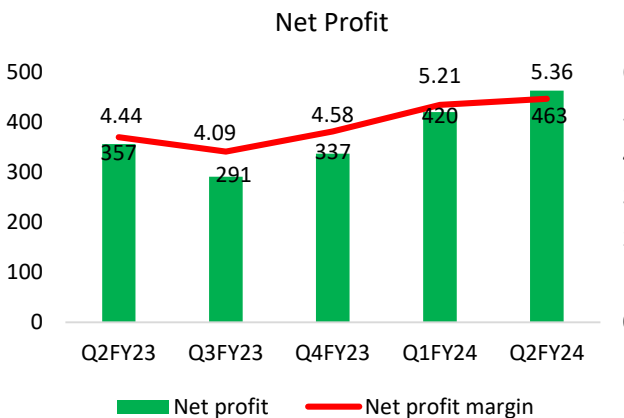


Exhibit 7: Positive trend continues in EPS

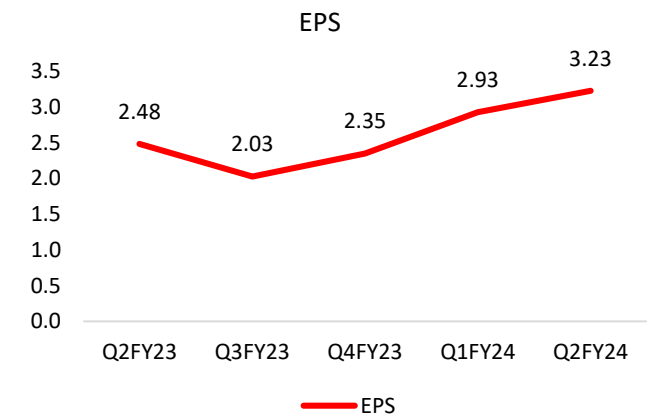
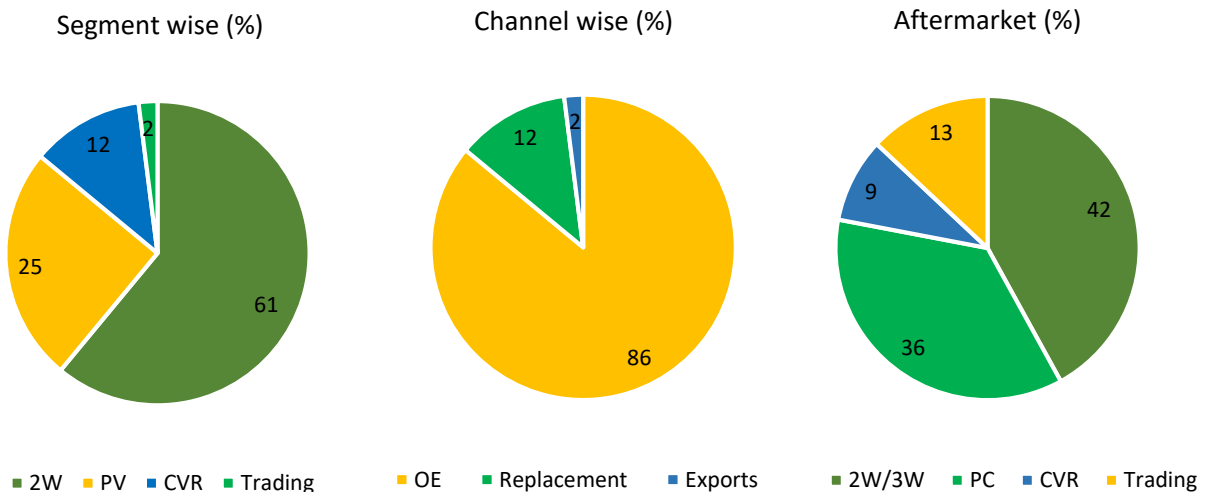


Exhibit 8: Diversified products segments with strong traction in 3W/2W segment and market share expansion



Source: Arihant Research, Company Filings

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	12%
Beta (2 Yr)	1.0
CMP (INR)	337

WACC

We	99.8%
Wd	0.2%
Ke	11.9%
Kd	6.2%
WACC	11.93%

Valuation Data

Total Debt (long term borrowings) (2023)	111
Cash & Cash Equivalents (2023)	1,074
Number of Diluted Shares (2023)	144
Tax Rate (2024)	19.06%
Interest Expense Rate (2024)	7.6%

MV of Equity	48,392
Total Debt	111
Total Capital	48,503

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
EBIT * (1-Tax Rate)	1,881	2,492	3,123	3,914	4,761	5,615	6,414	7,088	7,571	7,806	7,758	7,999
Dep	673	772	892	1,038	1,741	1,771	2,023	2,236	2,388	2,462	2,447	2,523
Purchase of Assets	1,071	1,288	1,557	1,901	2,592	2,892	3,304	3,651	3,900	4,020	3,996	4,120
Changes in Working Capital	(1,281)	(1,164)	(1,396)	(1,710)	(443)	(1,487)	(1,699)	(1,877)	(2,005)	(2,067)	(2,055)	(2,119)
FCFF	2,763	3,140	3,853	4,760	4,353	5,981	6,832	7,551	8,065	8,315	8,264	8,521
% Growth in Post Tax EBIT		32.5%	25.3%	25.3%	21.6%	17.9%	14.2%	10.5%	6.8%	3.1%	-0.6%	3.1%
As % of Post Tax EBIT												
Dep	35.8%	31.0%	28.6%	26.5%	36.6%	31.5%	31.5%	31.5%	31.5%	31.5%	31.5%	31.5%
Purchase of Assets	57.0%	51.7%	49.9%	48.6%	54.4%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%	51.5%
Changes in Working Capital	-68.1%	-46.7%	-44.7%	-43.7%	-9.3%	-26.5%	-26.5%	-26.5%	-26.5%	-26.5%	-26.5%	-26.5%
FCFF	2,763	3,140	3,853	4,760	4,353	5,981	6,832	7,551	8,065	8,315	8,264	8,521
Terminal Value												96,484.83
Total Cash Flow	2,763	3,140	3,853	4,760	4,353	5,981	6,832	7,551	8,065	8,315	8,264	105,006

Enterprise Value (EV)	57,601	g(%)										
Less: Debt	111	408	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%	
Add: Cash	1,074	13.0%	335	340	345	351	356	363	369	376	383	
Equity Value	58,564	12.7%	345	350	356	362	368	375	382	389	396	
Equity Value per share (INR)	408	12.4%	355	361	367	374	380	387	395	403	411	
% Returns	21.02%	12.2%	367	373	379	386	394	401	409	418	427	
Rating	BUY	11.9%	379	385	392	400	408	416	424	434	444	
		11.6%	391	399	406	414	422	431	441	451	462	
		11.3%	405	413	421	429	438	448	458	469	481	
		11.0%	419	427	436	446	456	466	477	489	502	
		10.7%	434	443	453	463	474	485	498	511	525	

Source: Company reports, Arihant Capital Research, Figures are in INR cr except share price and percentage data

Income statement (INR mn)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	23,337	29,718	34,563	41,545	50,217
YoY (%)	37.3	27.3	16.3	20.2	20.9
Adjusted RMC	17,863	22,688	25,908	30,922	37,342
YoY (%)	41.2	27.0	14.2	19.4	20.8
Personnel/ Employee benefit expenses	1,597	1,831	2,110	2,493	3,013
YoY (%)	8.3	14.7	15.2	18.1	20.9
<i>Manufacturing & Other Expenses</i>	2,400	3061	3548	4279	5113
YoY (%)	33.6	27.6	15.9	20.6	19.5
Total Expenditure	21,860	27,580	31,566	37,694	45,467
YoY (%)	37.3	26.2	14.5	19.4	20.6
EBITDA	1,477	2,137	2,997	3,851	4,750
YoY (%)	37.2	44.7	40.2	28.5	23.3
EBITDA Margin (%)	6.33	7.19	8.67	9.27	9.46
Depreciation	414	510	673	772	892
% of Gross Block	6.8	6.7	7.7	7.7	7.7
EBIT	1,064	1,627	2,324	3,079	3,858
EBIT Margin (%)	4.6	5.5	6.7	7.4	7.7
Interest Expenses	43	46	80	60	60
Non-operating/ Other income	244	173.2	189	231.4	222.4
PBT	1,265	1,754	2,433	3,250	4,020
Tax-Total	369	448	620	845	1045
Adj. Net Profit	895	1,306	1,813	2,405	2,975
PAT Margin	3.8	4.4	5.2	5.8	5.9
Shares o/s/ paid up equity sh capital	144	144	144	144	144
Adj EPS	6.2	9.1	12.6	16.7	20.7

Cash Flow Statement (INR mn)

Year End-March	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,265	1,754	2,433	3,250	4,020
Depreciation and amortisation	414	510	673	772	892
Interest adjustment	43	46	80	60	60
Interest income on fixed income securities	(80)	(108)	(74)	(74)	(74)
Profit/(loss) on sale of investments, net	(25)	9	(25)	(25)	(25)
Change in assets and liabilities	1,578	2,200	3,086	3,983	4,872
Inventories	(135)	(148)	117	(495)	(633)
Trade receivables	(1,046)	(22)	(310)	(902)	(1,120)
Trade payables	904	(313)	(502)	973	1,246
Other Liabilities and provisions	53	42	148	223	281
Other Assets	(72)	17	(114)	(119)	(125)
Net cash from operating activities	965	1,363	1,805	2,818	3,477
Net Sale/(Purchase) of tangible and intangible assets, Capital WIP	(770)	(920)	(1,087)	(1,304)	(1,574)
Net Sale/(Purchase) of investments	(661)	33	(170)	(170)	(170)
Net cash (used) in investing activities	(442)	(1,038)	(1,182)	(1,400)	(1,669)
Interest expense	(28)	(35)	(80)	(60)	(60)
Dividend paid	(180)	(274)	(399)	(529)	(654)
Net cash (used) in financing activities	(241)	(337)	(478)	(589)	(715)
Closing Balance	410	398	446	1,275	2,367
FCF	195	443	718	1,514	1,903
Capex (% of sales)	3.30	3.10	3.10	3.10	3.10

Balance sheet (INR mn)

Year-end March	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Equity Share Capital	144	144	144	144	144
Equity	7,524	8,559	10,008	11,883	14,204
Networth	7,668	8,703	10,151	12,027	14,347
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	10,262	12,138	14,458
Application of Funds					
Gross block	6,127	6,635	8,746	10,034	11,591
Less: depreciation	2,273	2,377	3,560	4,332	5,224
Net Fixed Assets	3,854	4,258	5,186	5,701	6,366
Capital WIP	203	296.42	327	343	360
Investments measurement	838	795	1,238	1,438	1,638
Current assets	8,635	8,931	9,987	12,332	15,303
Inventory	2,100	2,248.0	2,555	3,050	3,683
Debtors	3,824	3,837.1	4,463	5,364	6,484
Other Current Assets	2,166	1,771	2,388	2,507	2,632
Bank	136	676	136	136	136
Cash	410	398	446	1,275	2,367
Current Liabilities/Provisions	5,752	5,484	6,476	7,677	9,155
Creditors / Trade Payables	4,762	4,405	5,030	6,003	7,249
Liabilities	541	585	1,065	1,271	1,535
Provisions	305	335	336	353	370
Net Core Working Capital	1,162	1,681	1,988	2,411	2,918
Net Current Assets	2,883	3,446	3,511	4,655	6,148
Deferred Tax Asset	-145	159.3	-145	-145	-145
Total Asset	13,531	14,280	16,738	19,815	23,757
Total Capital Employed	7,778	8,796	10,262	12,138	14,458

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	-0.17	-0.23	-0.28
Debt / EBITDA	0.08	0.04	0.04	0.03	0.02
DuPont Analysis					
Sales/Assets	300.01	337.84	336.80	342.27	347.32
Assets/Equity	176	164	165	165	166
RoE	11.67	15.01	17.86	20.00	20.73
Per share ratios					
Reported EPS	6.2	9.1	12.6	16.7	20.7
Dividend per share	1.6	1.7	2.8	3.7	4.6
BV per share	53.4	60.6	70.7	83.7	99.9
Profitability ratios					
Net Profit Margin (PAT/Net Sales)	3.84	4.40	5.24	5.79	5.92
Gross Profit / Net Sales	23.5	23.7	25.0	25.6	25.6
EBITDA / Net Sales	6.33	7.19	8.67	9.27	9.46
PAT / Net Sales	3.84	4.40	5.24	5.79	5.92
ROCE (%)	13.7	18.5	22.6	25.4	26.7
Activity ratios					
Inventory Days	42.9	36.2	36.0	36.0	36.0
Debtor Days	59.8	47.1	47.1	47.1	47.1
Creditor Days	97.3	70.9	70.9	70.9	70.9
Valuation ratios					
EV / EBITDA	31.90	21.82	15.58	11.86	9.34
P/E based Valuation:					
EPS	6.23	9.10	12.62	16.74	20.71
P/E (X)	30.33	37.05	26.71	20.13	16.27

Source: Arianth Research, Company Filings

Arihant Research DeskEmail: research@arihantcapital.com

Tel. : 022-42254800

Head Office

#1011, Solitaire Corporate Park
 Building No. 10, 1st Floor
 Andheri Ghatkopar Link Road
 Chakala, Andheri (E)
 Mumbai – 400093
 Tel: (91-22) 42254800
 Fax: (91-22) 42254880

Registered Office

Arihant House
 E-5 Ratlam Kothi
 Indore - 452003, (M.P.)
 Tel: (91-731) 3016100
 Fax: (91-731) 3016199

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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Registration No.**

INH000002764

Contact

SMS: 'Arihant' to 56677

Websitewww.arihantcapital.com**Email Id**research@arihantcapital.com

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Arihant Capital Markets Ltd.
 1011, Solitaire Corporate park, Building No. 10, 1st Floor,
 Andheri Ghatkopar Link Road, Chakala, Andheri (E)
 Tel. 022-42254800 Fax. 022-42254880