



Cost reductions initiatives playing out; Recovery expected in FY22

Gabriel reported an excellent set of numbers for Q2FY21; the company reported revenues of Rs 460 cr (down 3% YoY), EBITDA of Rs 36 cr. (up 16% YoY) as the company's cost reduction initiatives CORE90 have started playing out and PAT of Rs 31cr. (up 67% YoY). EBITDA margins expanded 127 bps a big chunk of which is expected to be structural in nature on account of cost management initiatives undertaken by the company.

Recovery in automobile demand is seen from month-on-month numbers ahead of festival season but the permanence of the same would be confirmed if the same is reflected post festive season. Gabriel Ltd. would benefit from its presence on 2W models of TVS Motors, Bajaj Auto and Yamaha along with the now popular Maruti S-Presso and to be launched New Alto, where it would be the sole supplier of suspension products. We introduce our FY23 estimates and expect the Revenues/PAT for Gabriel to grow at CAGR of 5%/9% respectively over FY20-23E. We continue to like the growth story of Gabriel driven by operating leverage, margin expansion following the cost reduction initiatives etc. **We recommend HOLD with a price target of Rs 114 (earlier target Rs 91) valuing the company at 15x FY23E.**

Key Con call Highlights

- Cost reduction initiatives under CORE90 are playing out; EBITDA up 16% despite 3% drop Q2FY21. Being structural in nature, the benefits are likely to sustain in future. As and when on back of auto recovery, the benefits of operating leverage is likely to play out. Having 25% and 18% in PVs, faster recovery in these segments would help Gabriel ride the automobile couple of quarters.
- Company has already onboarded new programs of N360, N282, N289RR for TVS motors as for Bajaj Auto. Similarly, company has its presence on EV platforms developed by OEMs TVS, Hero Electric for 2W and Bajaj Auto, M&M and TI for 3W. TVS Motors, Bajaj Auto are its top three customers.
- Q2FY21 performance of Gabriel was impacted due to discontinuation of Maruti Omni WagonR where Gabriel was not a supplier. But going forward, the growing popularity of S- where Gabriel is lead supplier is expected to more than compensate for the loss. Passenger sales to Gabriel and 18% market share; management aspires to take the PV market share new launches with long term target of 25%. Gabriel has been onboarded on the Maruti products and is working on 3 launches of M&M, 2 models of VW, and one each of PSA and

Outlook & valuation

Gabriel has been in leadership position in suspension market; it commands 25% market share with PVs, 18% with 2W and 75% with CVs. **We expect Gabriel to post Revenues/PAT to grow at CAGR of 5%/9% respectively over FY20-23E and recommend a HOLD with a target price of Rs 114 (earlier target Rs 91).**

Key Financials (CONSOLIDATED)

(Rs. Cr)	FY20	FY21E	FY22E	FY23E
Net Sales	1,870	1,633	2,112	2,189
EBITDA	138	106	177	185
PAT	85	57	104	109
EPS (Rs.)	5.9	4.0	7.2	7.6
RoE (%)	13.5	8.4	13.9	13.0
D/E	0.01	0.01	0.01	0.01
PER (x)	12.5	26.4	14.5	13.9
P/BV	1.6	2.2	1.9	1.7

Source: Company, Axis Research

(CMP as of Nov 12, 2020)

CMP (Rs)	105
Upside /(Downside (%))	8%
High/Low (Rs)	140/40
Market cap (Cr)	1505
Avg. daily vol. (6m) Shrs.	220,306
No. of shares (Cr)	14.36

Shareholding (%)

	Mar-20	Jun-20	Sept-20
Promoter	52.75	52.75	52.75
FIIs	10.76	10.59	10.73
DIIIs	5.33	5.89	5.75
Retail	31.16	30.75	30.73

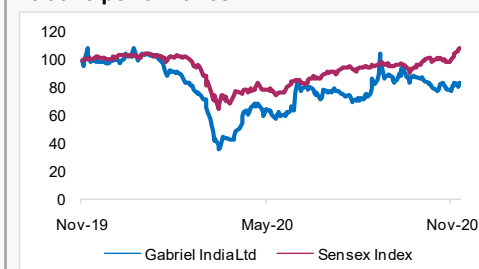
Financial & Valuations

Y/E Mar (Rs. Cr)	FY21E	FY22E	FY23E
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Change in Estimates (%)

Y/E Mar	FY21E	FY22E	FY23E
Rev Growth (%)	14.8	12.0	0.0
EBITDA Mar (%)	3.1	17.2	0.0
EPS Growth (%)	15.1	19.5	0.0

Relative performance



Source: Capitaline, Axis Securities

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Key con call takeaways:

- **Cost reduction:** Gabriel has been focusing on comprehensive cost reductions even before Covid-19 hit. The cost reduction exercise has been yielding results and this would bring the breakeven point downwards and help in protecting margins to some extent from FY22 onwards. The impact of cost reductions can be seen in improvement in margins which improved by 100 bps on annual comparison.
- **Focus on 2W to help company:** In wake of rising need of personal mobility as people avoid public transport, the 2W and low end passenger cars is expected to continue to gain traction. Gabriel commands 25% market share and around 68% of the sales are driven by 2/3W; though 3W domestic sales would continue to be under pressure, the export opportunities for the OEMs like Bajaj Auto still exists. TVS Motors, Bajaj Auto and Yamaha happen to be its top three customers. Company has already onboarded new programs of N360, N282, N289RR for TVS motors and R107 & CNG model for Bajaj Auto.
- **Passenger cars contribute 19% sales to Gabriel:** Company management aspires to take PV market share closer to 20% with the new launches from current 18% in near term and 25% in long term. Gabriel has been onboarded on the Maruti S-Presso for suspension products and is on advance stages to bag 3 launches of M&M, 2 models of VW, and one each of PSA and TML. They have future collaborations lined up with Yamaha, Ather Energy, Hero Electric, Maruti, M&M and Ashok Leyland in its Modular program.
- **CV segment contributes 10% to the sales:** Production cuts by CV OEMs has impacted Gabriel's performance in Q2FY21; recovery in CV sales would benefit vastly to Gabriel given it's 75% market share. Increased CV volumes would bring in margin expansion on account of operating leverage. GIL has on-boarded new programs with WABCO, MTBD ICV and Force Motors. Similarly, it is also present on Ashok Leyland MBP and Partner and T1N of Force Motors.
- **Exports:** Exports contributed Rs 121 cr in Q2FY21 sales revenue. 70% of the exports is for aftermarkets while the rest is to OEMs overseas. Gabriel is looking to tap the vast export opportunities opened up in wake of China plus one principle adopted by various European and US OEMs. With critical deal wins in VW Russia and DAF, Gabriel has finally put a foot on the door of these marquee brands and expects exports to increase significantly over medium term. VW Russia has increased its order size post a successful first phase and the company has received a schedule for exports till Mar.'21; PACAR, Leyland UK is also evinced interest in its products.
- **Aftermarket:** Aftermarkets holds great promise for Gabriel; it sources 82% of its aftermarket revenues from Shock absorbers and struts. Brand "Gabriel" is synonymous with shock absorbers and struts with greater than 40% market share; company commands higher margins for aftermarket exports.

Result Update (Consolidated)
(Rs Cr)

(Rs.Cr.)	Quarterly Performance				
	Q2FY21	Q2FY20	% Change (YoY)	Q1FY21	% Change (QoQ)
Sales	460	473	(3)	123	274
Other Inc	0.0	0.0		0.0	
Total Revenue	460	473	(3)	123	274
Expenditure					
Net Raw Material	331	348	(5)	84	296
Personnel	36	39	(6)	34	8
Purchase of traded goods	8	6	29	3	182
Other Exp	48	49	(1)	20	144
Total Expenditure	424	441	(4)	140	203
EBIDTA	36	31	16	-17	(312)
Interest	1.3	0.9	42	0.7	84
Depreciation	10.5	10.3	2	8.9	18
Other Income	4.2	2.2	90	2.5	70
PBT	29	22	29	-24	(219)
Tax	-1.9	3.8	(150)	-0.4	382
PAT	30.6	18.5	66	(23.8)	(229)
Other Comprehensive Income	0.6	0.2	NA	(0.8)	(179)
Total Comprehensive Income	31.2	18.7	67	(24.5)	(227)
EPS (Rs.)	2.1	1.3	66	(1.7)	(229)

Source: Company, Axis Securities

Financials (Consolidated)
Profit & Loss

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Net sales	2,076	1,870	1,633	2,112	2,189
Other operating income	0	0	0	0	0
Total income	2,076	1,870	1,633	2,112	2,189
Cost of goods sold	1,827	1,670	1,470	1,862	1,930
Contribution (%)	12.0%	10.7%	10.0%	11.8%	11.8%
Advt/Sales/Distrn O/H	71.3	62.1	57.6	73.4	73.4
Operating Profit	178	138	106	177	185
Other income	9	10	11	8	8
PBIDT	187	147	116	185	193
Depreciation	41	44	40	43	45
Interest & Fin Chg.	3	4	4	3	3
E/o income / (Expense)	0	0	0	0	0
Pre-tax profit	143.07	100.27	71.91	138.62	145.49
Tax provision	48	16	15	35	37
(-) Minority Interests	0	0	0	0	0
Associates	0	0	0	0	0
Adjusted PAT	95	85	57	104	109
Reported PAT	95	85	57	104	109

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Total assets	634	685	730	820	915
Gross block	392.9	478.6	528.2	588.2	648.2
Net Block	300.7	348.6	357.7	374.5	389.5
Goodwill	0.0	0.0	0.0	0.0	0.0
CWIP	53.8	19.6	30.0	30.0	30.0
Investments	5.8	10.5	10.5	10.5	10.5
Wkg. cap. (excl cash)	178	215	191	216	221
Cash / Bank balance	95.4	91.8	140.2	188.8	263.7
Misc. Assets	0.0	0.0	0.0	0.0	0.0
Capital employed	634	685	730	820	915
Equity capital	14.4	14.4	14.4	14.4	14.4
Reserves	576	637	680	769	863
Minority Interests	0.0	0.0	0.0	0.0	0.0
Borrowings	24	26	26	26	26
Def tax Liabilities	19.1	8.0	9.9	11.0	12.2

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Sources	(195)	89	85	133	140
Cash profit	139	132	101	150	157
(-) Dividends	26	15	15	15	15
Retained earnings	113	117	87	135	142
Issue of equity	0.0	0.0	0.0	0.0	0.0
Change in Oth. Reserves	(4.4)	1.3	0.0	0.0	0.0
Borrowings	(0)	1	0	0	0
Others	(304)	(30)	(2)	(2)	(2)
Applications	(195)	89	85	133	140
Capital expenditure	(215.8)	103.8	60.0	60.0	60.0
Investments	5.8	4.7	0.0	0.0	0.0
Net current assets	21.5	(15.4)	(23.6)	24.6	5.4
Change in cash	(6.9)	(3.6)	48.4	48.6	74.8

Source: Company, Axis Securities

Ratio Analysis

(%)

Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Sales growth	10.5	(9.9)	(12.7)	29.3	3.6
OPM	8.6	7.4	6.5	8.4	8.5
Oper. profit growth	3.8	(22.5)	(23.4)	67.5	4.7
COGS / Net sales	88.0	89.3	90.0	88.2	88.2
Overheads/Net sales	3.4	3.3	3.5	3.5	3.4
Depreciation / G. block	10.5	9.1	7.7	7.3	6.9
Net wkg.cap / Net sales	0.06	0.07	0.07	0.05	0.06
Net sales / Gr block (x)	5.3	3.9	3.1	3.6	3.4
RoCE	24.4	15.7	10.7	18.3	17.1
Debt / equity (x)	0.01	0.01	0.01	0.01	0.01
Effective tax rate	33.6	15.5	20.4	25.2	25.2
RoE	16.7	13.5	8.4	13.9	13.0
Payout ratio (Div/NP)	27.4	17.4	25.8	14.2	13.6
EPS (Rs.)	6.6	5.9	4.0	7.2	7.6
EPS Growth	0.8	(10.8)	(32.4)	81.2	5.0
CEPS (Rs.)	9.5	8.9	6.8	10.2	10.7
DPS (Rs.)	1.5	0.9	0.9	0.9	0.9

Source: Company, Axis Securities

About the analyst**Analyst:** Pankaj Bobade**Contact Details:** pankaj.bobade@axissecurities.in**Sector:** Metals, Auto, Auto ancillary**Analyst Bio:** BE (Met.), CFA (ICFAI) with 12 years of Research Experience in Metals, Auto, Auto ancillary**Disclosures:**

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