

Gabriel India Limited

Industry Auto Ancillary
Bloomberg GABR IN
BSE CODE 505714

Adverse Product mix and weaker operating leverage led to margin compression

RATING	NEUTRAL
CMP	138
Price Target	131
Potential Upside	-5%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	168/116
Mkt Capital (Rs Cr)	1988
Free float (%)	46%
Avg. Vol 1M (,000)	76
No. of Shares (Cr.)	14
Promoters Pledged %	0%

Research Analyst

NAVEEN KUMAR DUBEY

Naveen.dubey@narnolia.com

+91-22-62701235

3QFY19 Result Update

- ❑ GABRIEL reported healthy revenue growth of 14.1% YoY to Rs. 510 crores (vs our estimate of Rs. 471 crores) largely driven by strong growth in 2 wheeler and CV segment.
- ❑ Higher raw material cost due to increase in the commodity prices and the lag effect with few OEM's which impacted gross margins by 30bps QoQ during the quarter.
- ❑ EBITDA margins were declined by 110bps QoQ to 8.4% largely on account of higher employee cost and weaker operating leverage due to slow down in the passenger vehicle segment.
- ❑ PAT for the quarter stood at Rs. 22 crores (vs our estimates of Rs. 21 crores). PAT margins were hampered due to increase in the tax rates during the quarter.
- ❑ Management has the new model lined up from Maruti - alto for which production will start from the August 2019. Going forward, the company also has orders for new models from Volkswagen, Skoda.

View and Valuation

EBITDA margin has declined by 110bps on sequential basis due to adverse product mix, increase in commodity prices and weaker operating leverage in 3QFY19. The company didn't get the order for new Wagon R as the company phased out the older one which resulted in lower revenues in the PV segment. The passenger vehicle industry continues to struggle as factors such as higher fuel price, increase in ownership cost, lack of new model launches and muted festive season hampered the consumer sentiments. However by offering higher discounts most of the OEMs have lowered the inventory level in the system but the demand scenario remains sluggish. The growth was shifted towards 2 wheelers and commercial vehicle segment. Going ahead we expect margins to remain under pressure for couple of quarters based on adverse product mix and weaker operating leverage. The company is the sole supplier of shock absorbers for Maruti Alto and SOP of which will start from August 2019. The management is targeting double digit EBITDA margin by FY20 but it may shift towards FY21 considering the overall demand environment. Factoring the muted demand (85% revenue from OEMs) and adverse product mix we reduce EBITDA margin by 70/30bps in FY19/20. Hence we value GABRIEL at 16x FY20e EPS to arrive at a target price of Rs.131 and maintain Neutral.

Key Risks to our rating and target

- ❑ Prolonged slow down in automobile Industry: 85% of revenue comes from OEMs.
- ❑ Increase in commodity prices.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	1438	1529	1833	2096	2335
EBITDA	129	144	171	186	222
EBIT	96	109	133	145	168
PAT	75	82	94	99	118
EPS (Rs)	5	6	7	7	8
EPS growth (%)	24%	8%	15%	6%	19%
ROE (%)	20%	18%	18%	17%	17%
ROCE (%)	25%	24%	25%	24%	25%
BV	26	31	37	41	47
P/B (X)	3.4	3.9	4.0	3.3	2.9
P/E (x)	17.1	21.4	22.3	19.9	16.8

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3QFY19 Results

In line with estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	447	497	515	542	510	14%	-6%	1,529	1,833	20%
Other Income	1	2	2	2	3	76%	23%	5	7	31%
Total Income	449	499	516	544	513	14%	-6%	1,535	1,840	20%
COGS	316	355	367	392	371	17%	-5%	1,084	1,311	21%
Staff Cost	35	36	40	39	38	7%	-3%	128	138	8%
Other Exp.	55	60	59	59	59	6%	-1%	173	214	24%
Expenditure	407	450	466	490	467	15%	-5%	1,385	1,662	20%
EBITDA	40	46	49	51	43	6%	-16%	144	171	19%
Depreciation	9	11	11	10	10	9%	0%	35	38	8%
EBIT	31	36	38	41	33	6%	-20%	109	133	22%
Interest	0	1	1	1	1	28%	-27%	2	3	74%
PBT	32	37	40	43	35	9%	-18%	112	137	22%
Excpt. Item	-	-	-	-	-			2	-	
Tax	11	12	13	14	13	22%	-6%	29	43	47%
PAT	22	26	27	29	22	2%	-24%	82	94	15%

Revenue growth led by 2W and CV segment

Net sales grew by 14.1% YoY to Rs. 510 crores largely on account of growth in 2W and CV segment around 23% and 34% YoY respectively. Passenger vehicle segment has declined by 8%YoY. Replacement and Export market grew by to 12% and 5% during the quarter. Slowdown in PV segment was largely led by reduction in volumes by Wagon R and muted consumer sentiments. The management has stated that the slowdown in PV segment is temporary in nature based on orders lined up from Volkswagen, Skoda, Maruti and other OEMs.

Higher raw material and fixed cost hampered margins

Gross margins reduced by 30bps QoQ to 27.3% largely on account of increased in the raw material cost because of rising commodity prices and lag in pass on from some OEMs. EBITDA margin has reduced by 110bps QoQ to 8.4% because of adverse product mix and weaker operating leverage.

PAT margins contracted led by higher tax expense

PAT for the quarter stood at Rs.22 crores. PAT margins were declined due to increase in the tax rate to 37%. However, guidance for the tax rate will be around 31-32% for FY19.

Concall highlights

- The management has stated that the volumes in the January remained muted from OEMs.
- Shift in segment mix particularly in PV segment to 2W due to decrease in the volumes of Wagon R had impacted. The slowdown in the PV segment is expected to be for the short term.
- Management has the new model lined up from Maruti - alto for which production will start from the month of August. Going forward, the company also has orders for new models from Volkswagen, Skoda.
- From Mahindra replacement demand is high for XUV500 and Thar.
- Replacement and Export market increased to 12% and 5% in terms of channel mix during the quarter.
- Higher raw material cost during the quarter was due to a) increase in the commodity prices b) Lag effect with some OEM's and c) unfavorable change in mix (shift towards 2W segment from PV segment).
- Segment growth in Gabriel stands at 2W and PV segment at around 18-20% and -5% YoY respectively.
- Replacement cycle for 3W, 2W and PV segment stands at 1 year, 4 years and 5 years respectively.
- CAPEX planned by management for FY19- Rs.85 crores out of which around Rs.40 crores are broadly for Sanand plant for 2W which was built for HMSI and rest will be spent towards backward integration in PV segment, R&D, maintenance and automation. However for FY20 CAPEX guidance is Rs.70 crores which is mainly for addition in Research and development, quality improvement, de-bottlenecking of plant and maintenance.
- Commissioning of Sanand plant will be at 3QFY20.

Exhibit: Net sales (Rs. Crore) and growth trend

Sales grew by 14% YoY largely on account of growth in 2W/3W and CV segment.

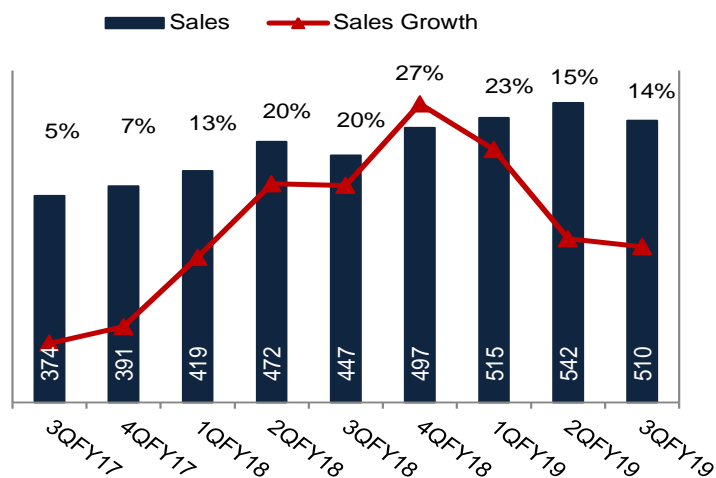


Exhibit: Segment Wise Revenue (Rs. Crore)

Segment revenue contribution was highest by 2W/3W.

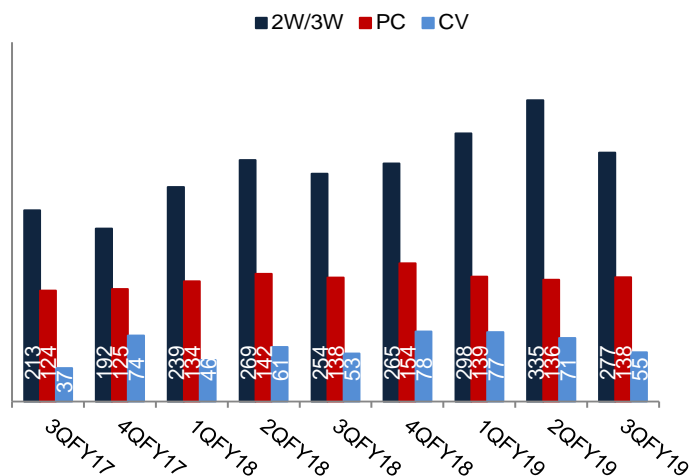


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Decline in EBITDA margins due to higher employee and weaker operating leverage

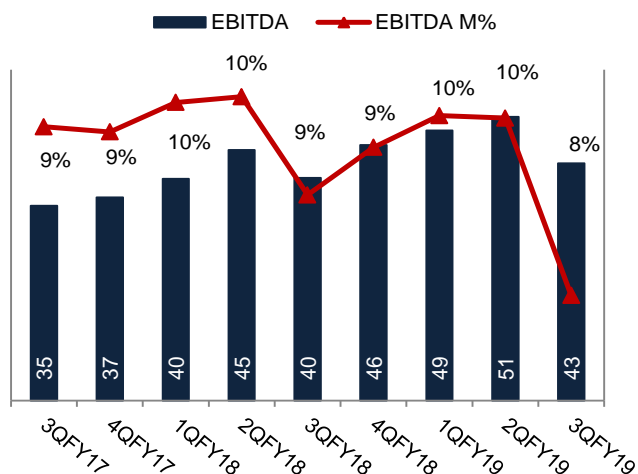


Exhibit: PAT (Rs. Crore) and PAT Margin trend

Higher tax expense led to decline in PAT Margins.

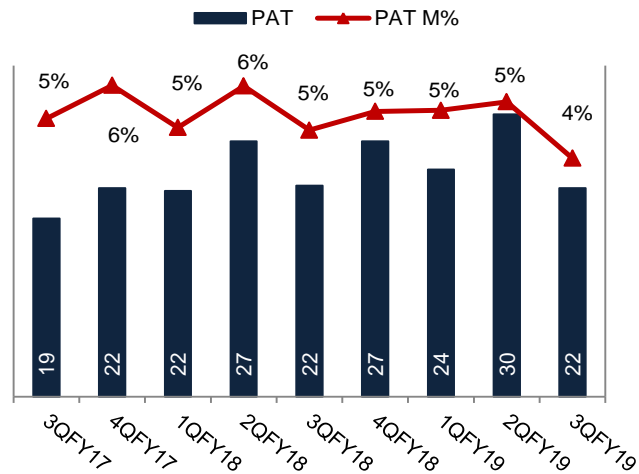


Exhibit: Channel Mix Revenue growth

Major Revenue contribution was from OEMs.

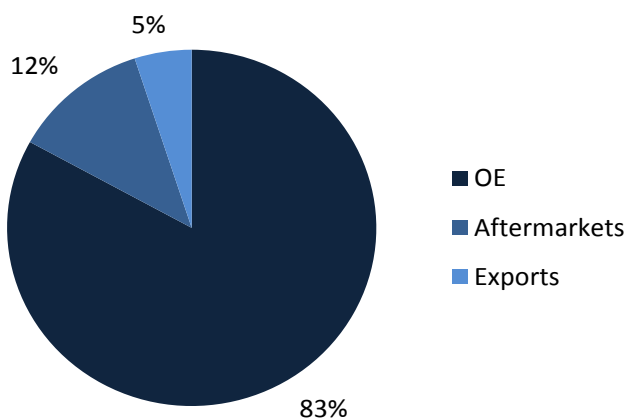
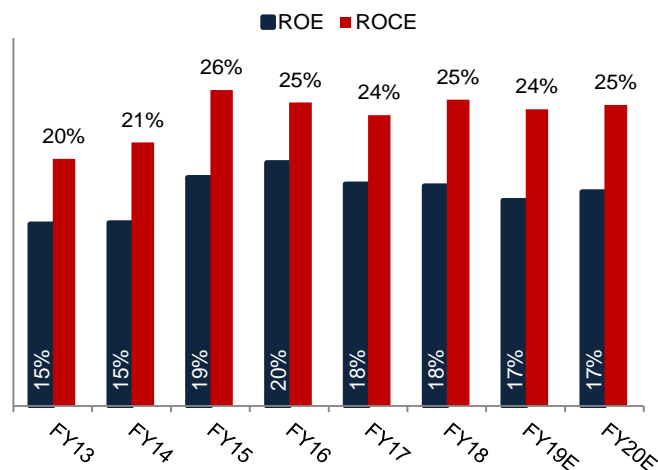


Exhibit: Return Ratios

Higher profitability leads to higher return ratio.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	14	14	14	14	14	14	14	14
Reserves	242	271	311	366	436	511	579	661
Networth	257	285	325	380	451	525	594	676
Debt	66	56	6	8	8	7	7	7
Other Non Cur Liab	20	14	20	20	26	32	32	32
Total Capital Employed	306	332	325	380	451	525	594	676
Net Fixed Assets (incl CWIP)	262	280	271	275	290	304	421	419
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	31	24	25	25	25	37	37	37
Non Curr Assets	292	303	296	300	315	342	459	456
Inventory	111	117	112	111	130	149	161	179
Debtors	117	136	172	192	212	279	316	352
Cash & Bank	7	5	4	36	53	40	15	17
Other Curr Assets	24	25	32	33	60	91	92	160
Curr Assets	259	283	321	372	455	559	583	708
Creditors	137	157	191	178	215	265	303	338
Provisons (both)	25	35	43	45	27	28	30	32
Other Curr Liab	46	39	32	40	45	44	76	81
Curr Liabilities	209	231	265	264	286	337	409	451
Net Curr Assets	50	52	55	108	169	222	174	257
Total Assets	552	586	616	672	770	901	1,042	1,165

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,205	1,287	1,444	1,438	1,529	1,833	2,096	2,335
Change (%)	7%	7%	12%	0%	6%	20%	14%	11%
Other Income	4	6	4	3	5	7	7	10
EBITDA	82	90	116	129	144	171	186	222
Change (%)	-12%	10%	29%	11%	12%	19%	9%	19%
Margin (%)	6.8%	7.0%	8.1%	9.0%	9.4%	9.3%	8.9%	9.5%
Depr & Amor.	27	27	31	33	35	38	41	54
EBIT	55	63	85	96	109	133	145	168
Int. & other fin. Cost	12	9	5	2	2	3	3	2
EBT	47	60	84	96	112	137	150	175
Exp Item	6	4	1	1	2	-	-	-
Tax	3	13	24	20	29	43	50	57
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	38	43	61	75	82	94	99	118
Adjusted PAT	38	43	61	75	82	94	99	118
Change (%)	-28%	12%	42%	24%	8%	15%	6%	19%
Margin(%)	3.2%	3.3%	4.2%	5.2%	5.3%	5.1%	4.7%	5.1%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	14.8%	14.9%	18.6%	19.8%	18.1%	18.0%	16.8%	17.5%
ROCE	20.2%	21.5%	25.8%	24.7%	23.7%	25.0%	24.2%	24.6%
Asset Turnover	2.2	2.2	2.3	2.1	2.0	2.0	2.0	2.0
Debtor Days	35	39	44	49	51	56	55	55
Inv Days	34	33	28	28	31	30	28	28
Payable Days	42	45	48	45	51	53	53	53
Int Coverage	5	7	16	40	66	46	57	70
P/E	6.8	10.0	19.9	17.1	21.4	22.3	19.9	16.8
Price / Book Value	1.0	1.5	3.7	3.4	3.9	4.0	3.3	2.9
EV/EBITDA	3.3	4.8	10.4	9.7	11.8	12.2	10.6	8.9
FCF per Share	4	2	4	4	5	4	(1)	7

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	41	56	84	95	111	137	150	175
(inc)/Dec in Working Capital	43	(9)	(2)	(17)	(3)	(22)	2	(18)
Non Cash Op Exp	27	27	31	33	35	38	41	54
Int Paid (+)	12	9	5	-	2	3	3	2
Tax Paid	-	(14)	(22)	(21)	(24)	(44)	(50)	(57)
others	(1)	(1)	(1)	1	(3)	(9)	-	-
CF from Op. Activities	123	69	96	91	117	104	145	157
(inc)/Dec in FA & CWIP	(69)	(40)	(35)	(39)	(51)	(48)	(158)	(52)
Free Cashflow	54	29	61	52	65	56	(13)	105
(Pur)/Sale of Inv	-	-	-	-	-	(31)	-	-
others	(4)	3	10	3	(71)	15	19	(66)
CF from Inv. Activities	(73)	(36)	(25)	(36)	(123)	(64)	(139)	(118)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(31)	(3)	(44)	2	(3)	(0)	(0)	(0)
Int. Paid	(13)	(9)	(6)	(3)	(2)	(3)	(3)	(2)
Div Paid (inc tax)	(9)	(11)	(13)	(15)	(21)	(23)	(31)	(36)
others	(20)	(13)	39	(20)	(98)	(37)	(106)	(79)
CF from Fin. Activities	(73)	(36)	(25)	(36)	(123)	(64)	(139)	(118)
Inc(Dec) in Cash	1	1	(1)	32	(31)	14	(28)	(0)
Add: Opening Balance	6	3	4	3	35	4	18	6
Closing Balance	7	4	3	35	4	18	12	15

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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