

**Industry**  
**Bloomberg**  
**BSE CODE**

**Auto Ancillary**  
**GABR IN**  
**505714**

RATING	NEUTRAL
CMP	95
Price Target	107
Potential Upside	13%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	159/85
Mkt Capital (Rs Cr)	1362
Free float (%)	46%
Avg. Vol 1M (,000)	54
No. of Shares (Crs)	14
Promoters Pledged %	0%

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## Adverse product mix and declining exports to dent margins

### 1QFY20 Result Update

- GABRIEL reported revenue of Rs.517 crores (vs our estimates of Rs.506 crores) largely driven by growth in the 2W segment.
- The 2W revenue grew by 16%YoY while PV and CV reported a decline of 26%YoY and 13% YoY respectively. However, aftermarket segment grew by 18% YoY in 1QFY20. The export after-market segment has also declined due to slowdown in two major markets; Sri-Lanka and Latin America.
- Segment wise revenue contribution for 2W, PV and CV stood at 67%, 20% and 13% respectively.
- Gross margins expanded by 50bps QoQ to 26.6% largely because of reduction in raw material prices during the quarter.
- EBITDA margins increased by 120bps QoQ to 8% on account of higher after-market sales and reduction in the other expenses during the quarter.
- PAT during the quarter stood at Rs. 22 crores (vs our estimates of Rs.17 crores) with 17%YoY decline. PAT margins expanded by 90bps with the reduced tax rate during quarter.

### View and Valuation

The margins improved by 120bps on sequential basis on account of reduction in commodity prices and higher aftermarket sales. The two-wheeler segment continues to perform better while the company has lost market share in the PV segment. The higher inventory level remains a concern for the company as OEMs have scheduled production cuts looking at the uncertain demand scenario. The export aftermarket has also seen decline due to slowdown in two major export markets; Sri-Lanka and Latin America. The margin profile will continue to be below 9% because of weaker operating leverage and higher fixed cost on upcoming Sanand plant. Factoring the slowdown in demand (85% revenue from OEMs), adverse product mix (reducing PV share) and near to mid-term uncertainty, we value GABRIEL at 16x FY20e EPS to arrive at a target price of Rs.107 and maintain Neutral.

### Key Risks to our rating and target

- Prolonged slowdown in automobile Industry (85% of revenue from OEMs).
- Increase in commodity prices.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1529	1833	2076	2186	2365
EBITDA	144	171	178	179	196
EBIT	109	133	137	134	147
PAT	82	94	95	97	105
EPS (Rs)	6	7	7	7	7
EPS growth (%)	8	15	1	2	9
ROE (%)	18	18	16	15	14
ROCE (%)	24	25	23	20	20
BV	31	37	41	46	51
P/B (X)	4	4	3	2	2
P/E (x)	21.4	22.3	21.0	14.1	12.9

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## Revenue below estimate

### 1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	515	542	510	510	517	0%	1%	1,833	2,076	13%
Other Income	2	2	3	3	2	-6%	-35%	7	9	30%
Total Income	516	544	513	513	519	0%	1%	1,840	2,086	13%
COGS	367	392	371	377	380	3%	1%	1,311	1,507	15%
Staff Cost	40	39	38	37	40	2%	8%	138	154	12%
Other Exp.	59	59	59	61	56	-5%	-9%	214	238	11%
Expenditure	466	490	467	476	476	2%	0%	1,662	1,899	14%
EBITDA	49	51	43	35	41	-16%	20%	171	178	4%
Depreciation	11	10	10	10	10	-1%	1%	38	41	7%
EBIT	38	41	33	24	31	-20%	28%	133	137	3%
Interest	1	1	1	1	1	0%	7%	3	3	0%
PBT	40	43	35	26	32	-20%	22%	137	143	4%
Excpt. Item	-	-	-	-	-			-	-	
Tax	13	14	13	9	10	-25%	14%	43	48	12%
PAT	27	29	22	18	22	-17%	25%	94	95	1%

#### Revenue remain muted due to slowdown in overall industry

Net sales remain muted to Rs. 517 crores due to slow down at an overall industry at large. The 2W revenue grew by 16%YoY while PV and CV reported a decline of 26%YoY and 13% YoY respectively. However, aftermarket segment grew by 18% YoY in 1QFY20. The export after-market segment has also declined due to slowdown in two major markets; Sri-Lanka and Latin America. Segment mix during the quarter shifted more towards 2W which is 67% with an increase in the market share also as the models covered by the company are doing well in the market. PV segment the models covered already is no more there with the company (Maruti – Omni and Wagon R) which reduced the share of PV under the segment mix.

#### Margins expansion led by operating leverage benefit

Gross margins expanded by 50bps QoQ to 26.6% largely because of reduction in raw material prices during the quarter. EBITDA margins increased by 120bps QoQ to 8% on account of higher after-market sales and reduction in the other expenses during the quarter. However raw materials to sales was high due to change in the mix (by increasing the 2W) and the recovery front from the customers particularly from China due to challenging market condition.

#### Reduced tax rate enhanced PAT margin

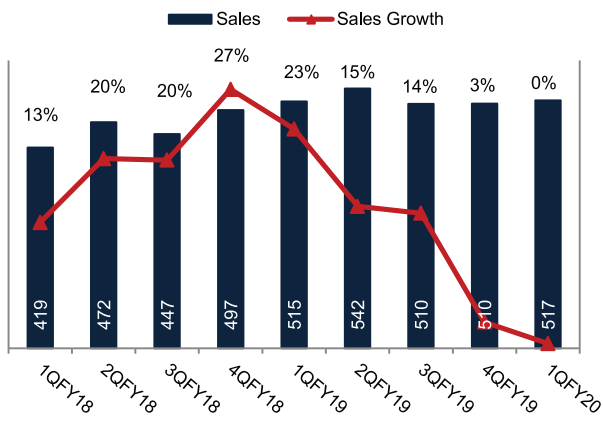
PAT during the quarter stood at Rs. 22 crores (vs our estimates of Rs. 17 crores) with 17%YoY decline. PAT margins expanded by 90bps with the reduced tax rate during quarter.

#### Concall Highlights :

- Segment mix during the quarter shifted more towards 2W which is 67% with an increase in the market share also the models covered by the company are doing well in the market.
- PV segment the models covered already is no more there with the company (of maruti – Omni and Wagon R which reduced the share of PV under the segment mix).
- CV segment replacement market grew market grew along with the new products were added during the month.
- Market condition in Columbia is not performing well due to which exports reduced during the quarter.
- Segmental revenue grew by 15%, -27% and -6% YoY of 2W, PV and CV respectively. However aftermarket grew by 18% YoY in 1QFY20.
- Market share is 26% in 2W segment.
- Raw material prices were high due to change in the mix (by increasing the 2W) and the recovery front from the customers particularly from China due to downside there in the market.
- Management expects ROIC to be in the range of 30% going ahead.
- Within 2W segment the front fork is currently at 40% and with the upcoming HMSI plant it's expected to increase going ahead.
- HMSI new models are lined up for the front fork which company will start serving from September 2019. Also the new EV models for 3W from Bajaj is also lined up with the company.

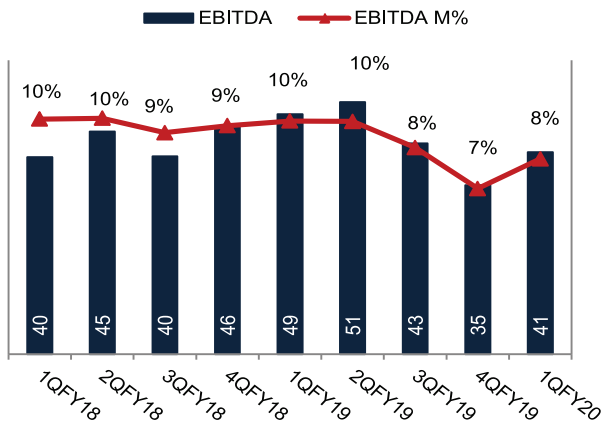
## Exhibit: Net sales (Rs. Crore) and growth trend

Revenue growth remain muted during the quarter



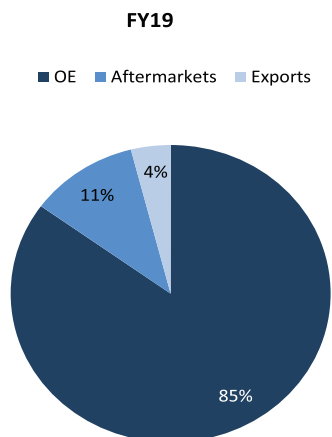
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Lower other expenses leads to increase in EBITDA margin



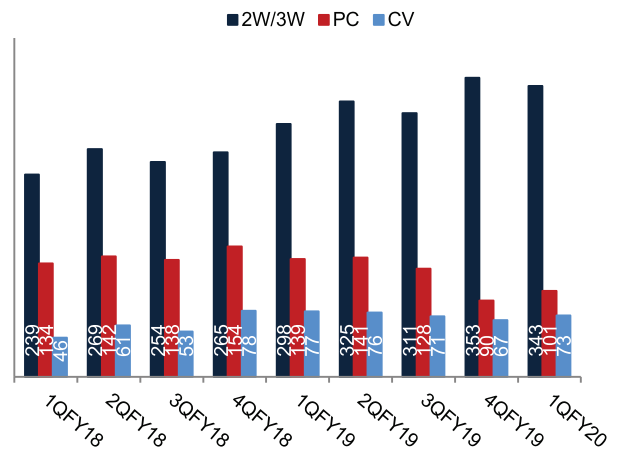
## Exhibit: Channel Mix Revenue growth

Revenue growth largely driven by OEMs



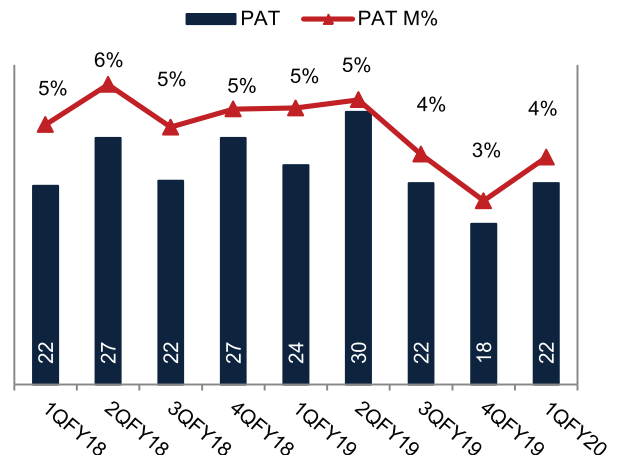
## Exhibit: Segment Wise Revenue (Rs. Crore)

2W/3W growth contributes higher revenue during the quarter.



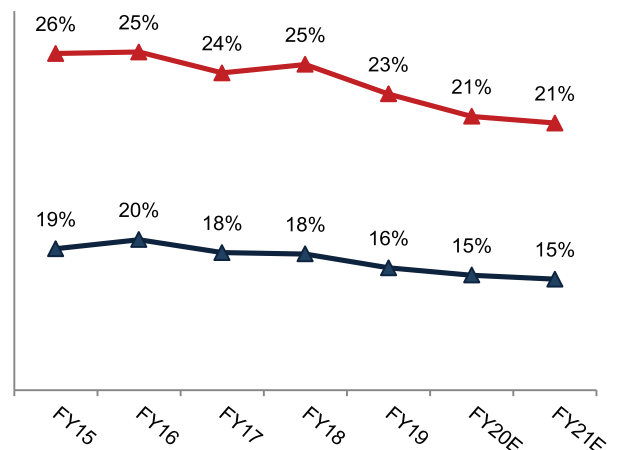
## Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margins increased on account of lower tax rate during the quarter



## Exhibit: Return Ratios

Higher profitability leads to higher returns



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	14	14	14	14	14	14	14	14
Reserves	271	311	366	436	511	576	643	717
Networth	285	325	380	451	525	590	658	731
Debt	56	6	8	8	7	7	7	7
Other Non Cur Liab	14	20	20	26	32	37	37	37
Total Capital Employed	332	325	380	451	525	590	658	731
Net Fixed Assets (incl CWIP)	280	271	275	290	304	352	325	357
Non Cur Investments	0	0	0	0	0	0	0	0
Other Non Cur Asst	24	25	25	25	37	45	45	45
Non Curr Assets	303	296	300	315	342	397	369	402
Inventory	117	112	111	130	149	165	174	188
Debtors	136	172	192	212	279	284	317	343
Cash & Bank	5	4	36	53	40	49	86	105
Other Curr Assets	25	32	33	32	29	27	28	30
Curr Assets	283	321	372	455	559	572	694	762
Creditors	157	191	178	215	265	261	287	311
Provisons (both)	35	43	45	27	28	29	30	31
Other Curr Liab	43	41	50	54	10	54	59	59
Curr Liabilities	231	265	264	286	337	335	363	389
Net Curr Assets	52	55	108	169	222	236	331	373
<b>Total Assets</b>	<b>586</b>	<b>616</b>	<b>672</b>	<b>770</b>	<b>901</b>	<b>969</b>	<b>1,064</b>	<b>1,164</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,287</b>	<b>1,444</b>	<b>1,438</b>	<b>1,529</b>	<b>1,833</b>	<b>2,076</b>	<b>2,186</b>	<b>2,365</b>
Change (%)	7%	12%	0%	6%	20%	13%	5%	8%
Other Income	6	4	3	5	7	9	11	13
<b>EBITDA</b>	<b>90</b>	<b>116</b>	<b>129</b>	<b>144</b>	<b>171</b>	<b>178</b>	<b>179</b>	<b>196</b>
Change (%)	10%	29%	11%	12%	19%	4%	1%	10%
<b>Margin (%)</b>	<b>7%</b>	<b>8%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>
Depr & Amor.	27	31	33	35	38	41	45	49
EBIT	63	85	96	109	133	137	134	147
Int. & other fin. Cost	9	5	2	2	3	3	3	3
<b>EBT</b>	<b>60</b>	<b>84</b>	<b>96</b>	<b>112</b>	<b>137</b>	<b>143</b>	<b>143</b>	<b>157</b>
Exp Item	4	1	1	2	-	-	-	-
Tax	13	24	20	29	43	48	46	52
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>43</b>	<b>61</b>	<b>75</b>	<b>82</b>	<b>94</b>	<b>95</b>	<b>97</b>	<b>105</b>
<b>Adjusted PAT</b>	<b>43</b>	<b>61</b>	<b>75</b>	<b>82</b>	<b>94</b>	<b>95</b>	<b>97</b>	<b>105</b>
Change (%)	12%	42%	24%	8%	15%	1%	2%	9%
<b>Margin(%)</b>	<b>3%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>	<b>4%</b>	<b>4%</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	15%	19%	20%	18%	18%	16%	15%	14%
ROCE	21%	26%	25%	24%	25%	23%	20%	20%
Asset Turnover	2.2	2.3	2.1	2.0	2.0	2.1	2.1	2.0
Debtor Days	38.6	43.6	48.8	50.6	55.6	50.0	53.0	53.0
Inv Days	33.1	28.3	28.1	31.0	29.7	29.1	29.1	29.1
Payable Days	44.6	48.2	45.2	51.2	52.8	45.9	48.0	48.0
Int Coverage	7	16	40	66	46	47	47	52
P/E	10.0	19.9	17.1	21.4	22.3	21.0	14.1	12.9
Price / Book Value	1.5	3.7	3.4	3.9	4.0	3.4	2.1	1.9
EV/EBITDA	4.8	10.4	9.7	11.8	12.2	11.2	7.6	6.9
FCF per Share	2	4	4	5	4	3	8	4

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	56	84	95	111	137	143	143	157
(inc)/Dec in Working Capital	(9)	(2)	(17)	(3)	(22)	(19)	(15)	(17)
Non Cash Op Exp	27	31	33	35	38	41	45	49
Int Paid (+)	9	5	-	2	3	3	3	3
Tax Paid	(14)	(22)	(21)	(24)	(44)	(62)	(46)	(52)
others	(1)	(1)	1	(3)	(9)	(13)	-	-
CF from Op. Activities	69	96	91	117	104	93	130	141
(inc)/Dec in FA & CWIP	(40)	(35)	(39)	(51)	(48)	(44)	(18)	(81)
Free Cashflow	29	61	52	65	56	49	112	59
(Pur)/Sale of Inv	-	-	-	-	(31)	-	-	-
others	3	10	3	(71)	15	(31)	(45)	(9)
CF from Inv. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(63)	(90)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	(3)	(44)	2	(3)	(0)	(0)	0	-
Int. Paid	(9)	(6)	(3)	(2)	(3)	(3)	(3)	(3)
Div Paid (inc tax)	(11)	(13)	(15)	(21)	(23)	(25)	(29)	(32)
others	(9)	(9)	(7)	-	(0)	(3)	-	-
CF from Fin. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(63)	(90)
Inc(Dec) in Cash	1	(1)	32	(31)	14	(13)	35	16
Add: Opening Balance	3	4	3	35	4	18	5	16
Closing Balance	4	3	35	4	18	5	83	102

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