

RATING	NEUTRAL
CMP	119
Price Target	106
Potential Upside	-11%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	159/85
Mkt Capital (Rs Cr)	1694
Free float (%)	46%
Avg. Vol 1M (,000)	58
No. of Shares (Cr.)	14
Promoters Pledged %	0%

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2QFY20 Result Update

- GABRIEL reported a revenue of Rs. 473 Cr. (vs our estimate of Rs. 495 Cr.) de-grew by 12.7% YoY largely on account de-growth in PV and CV segment of 39% and 27% YoY respectively.
- 2W segment revenue grew by 3% YoY despite the overall decline of 15% in 2W segment at industry level. The growth was due to the increase in market share of TVS and adding the current trending models like; JAVA model by Mahindra, RE twins model, Suzuki models etc which are performing well.
- Overall industry volumes decline particularly in MCV, LCV, PV and 2W by 50%, 26%, 24% and 15% YoY.
- Segment mix during the quarter stood at 2W, PV and CV at 70%, 18% and 12% respectively.
- Gross margin during the quarter reduced by 150 bps QoQ to 25.1% on the back of higher raw material cost as certain models added were at higher raw material content.
- EBITDA margin contracted by 140 bps to 6.6% in 2QFY20 on account of higher employee cost.
- PAT during the quarter stood at Rs. 18 Cr. along with the PAT margin of 3.9%. Lower tax rates restricted further decline.
- CAPEX is expected to be around Rs. 70 Cr. for FY20 which is mainly for the Sanand plant which is fully functional and customer audit will be in 3QFY20. Management expects commissioning of plant in 4QFY20.
- Sanand Plant is completely functional and ready for production but based on the customer timeline, its production shifted by 2 months.

View and Valuation

The domestic market continues to be challenging with sharp reduction in volumes across industry. This leads to higher fixed cost and weaker operating leverage resulting in margin erosion. The export pie has also contracted due to phasing out of old models in Columbia and 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 uncertainty in demand and adverse product mix (reduction in PV share), we value GABRIEL at 15x FY21e EPS to arrive at a target price of Rs.106 and maintain Neutral rating.

Key Risks to our rating and target

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

Fig. in Rs. Cr.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1529	1833	2076	1993	2170
EBITDA	144	171	178	149	172
EBIT	109	133	137	104	123
PAT	82	94	95	85	102
EPS (Rs)	6	7	7	6	7
EPS growth (%)	8	15	1	-11	20
ROE (%)	18	18	16	13	14
ROCE (%)	24	25	23	16	17
BV	31	37	41	45	50
P/B (X)	3.9	4.0	3.4	2.6	2.4
P/E (x)	21.4	22.3	21.0	20.2	16.8

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2QFY20 Results

Revenue below estimates

Fig. in Rs. Cr.

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	542	510	510	517	473	-13%	-9%	1,833	2,076	13%
Other Income	2	3	3	2	2	9%	31%	7	9	30%
Total Income	544	513	513	519	475	-13%	-8%	1,840	2,086	13%
COGS	392	371	377	380	354	-10%	-7%	1,311	1,507	15%
Staff Cost	39	38	37	40	39	0%	-4%	138	154	12%
Other Exp.	59	59	61	56	49	-18%	-13%	214	238	11%
Expenditure	490	467	476	476	441	-10%	-7%	1,662	1,899	14%
EBITDA	51	43	35	41	31	-39%	-24%	171	178	4%
Depreciation	10	10	10	10	10	3%	-1%	38	41	7%
EBIT	41	33	24	31	21	-50%	-32%	133	137	3%
Interest	1	1	1	1	1	14%	22%	3	3	0%
PBT	43	35	26	32	22	-48%	-30%	137	143	4%
Excpt. Item	-	-	-	-	-			-	-	
Tax	14	13	9	10	4	-73%	-61%	43	48	12%
PAT	29	22	18	22	18	-36%	-16%	94	95	1%

Revenue de-grew by 12.7% YoY led by PV and CV segment

Net sales in 2QFY20 is Rs. 473 Cr. de-grew by 12.7% YoY on the back of decline in PV and CV segment by 39% and 27% YoY respectively. However, 2W segment grew by 2% YoY despite decline in overall industry by 15%. Growth in 2W segment was on account on increase in the market share and the orders for the trending model in the market. Segment mix during the quarter stood at 2W, PV and CV at 70%, 18% and 12% respectively. Channel mix across OE, Replacement and Exports stood at 85%, 13% and 2% respectively. Management expects replacement market to grow going ahead.

Higher raw material cost hampered margins

Gross margins contracted by 150bps QoQ to 25.1% on account of higher raw material cost of the current new model in the portfolio. Lag effect of the reduced commodity prices are still pending and not set off completely which might expand the margin in the upcoming quarter. EBITDA margins also reduce by 140 bps to 6.6% on the basis of higher employee cost.

Lower tax rates helps to sustain PAT at certain level

PAT during the quarter stood at Rs. 18 Cr. with a PAT margin of 3.9%. Tax rates in 2QFY20 remains lower on exercising the option permitted under section 115BAA of ITA 1961, within which the company has recognized provision for income tax and re-measured its Deferred Tax Assets/liabilities on the basis of the rate prescribed within the section.

Concall highlights

- Segment mix during the quarter shifted more towards 2W which is 67% with an increase in the market share also
- Overall industry volumes decline particularly in MCV,LCV, PV and 2W by 50%, 26%, 24% and 15% YoY.
- No major revival within the industry is expected by the management till the BS VI implementation will take place.
- 2W volumes grew by 3% YoY despite the decline in industry volumes by around 15%. The growth in 2W segment is due to increase in the market share of existing customers (TVS) as well as new customers, new trending models like JAVA model by Mahindra, RE twins model, Suzuki models are performing well.
- PV and CV (particularly LCV, MCV and HCV) volumes decline by 50%, 30%, 59% and 59% YoY respectively.
- Railway segment is almost 2x YoY basis in CV segment and is expected to perform well going forward.
- Exports contribution reduced to 2% (4% in FY19) of the total revenue due to Columbia the certain models were discontinued and the supply of new volumes will be there from FY21, Thailand volumes (ISUZU)are very low compared to the orders given to GABRIEL.
- Decline in the commodity prices has not impacted completely with the reduction in the raw material prices; the lag effect is still there to continue. Certain model mix has also higher raw material which is expected by management to be reduced going ahead.

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

Revenue de-grew by 13% YoY due to degrowth in PV and CV segment.

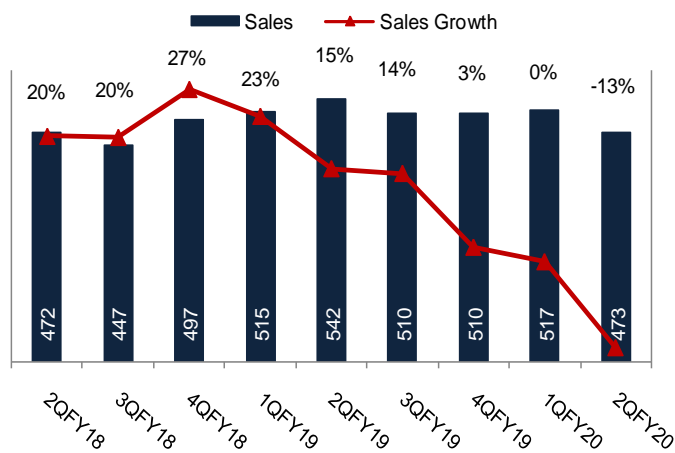


Exhibit: Segment Wise Revenue (Rs. Crore)

PV and CV segment de-grew by 39% and 27% YoY while 2W/3W grew by 3% YoY.

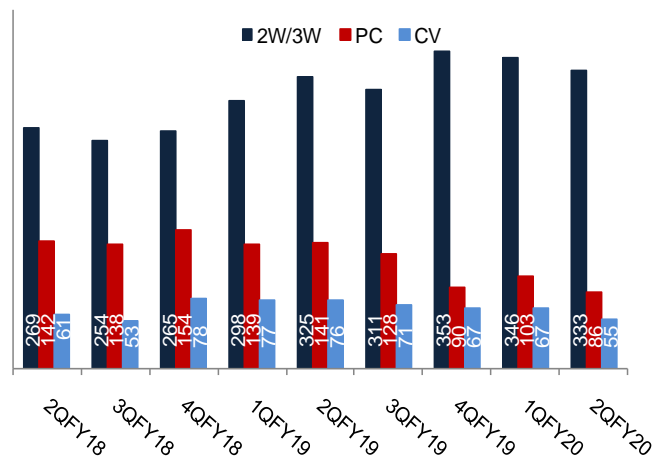


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Higher employee expense and reduced GROSS margins hampered EBITDA and EBITDA margins.

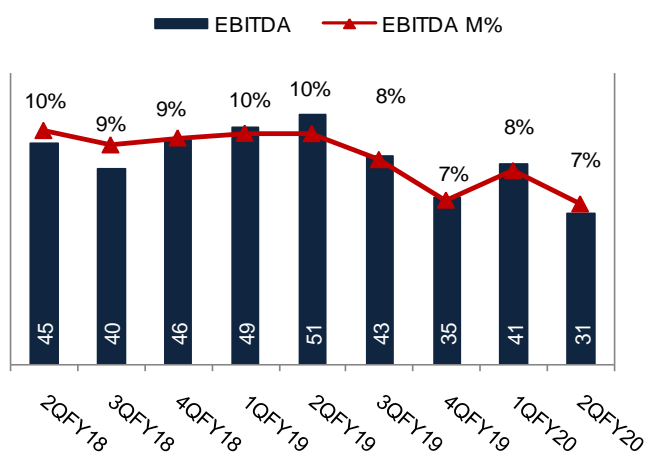


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT level sustained on account of lower tax during the quarter

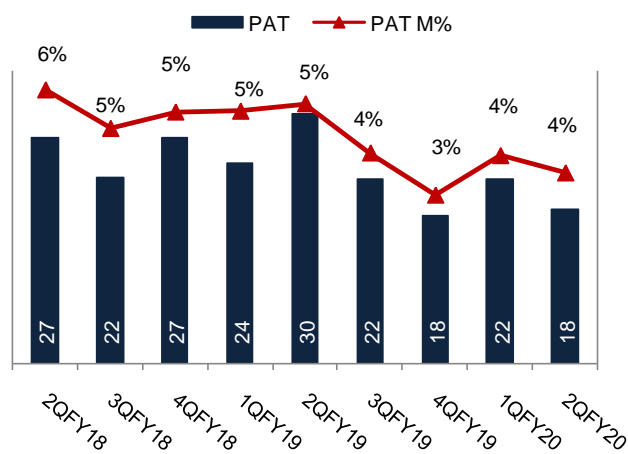


Exhibit: Channel Mix Revenue growth

Revenue growth largely driven by OEMs

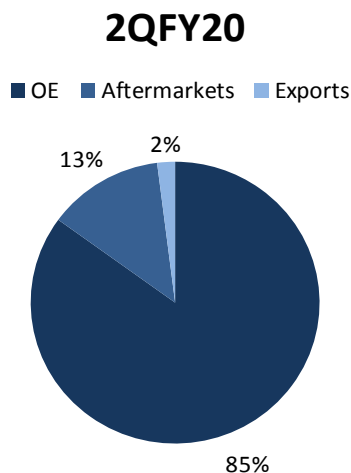
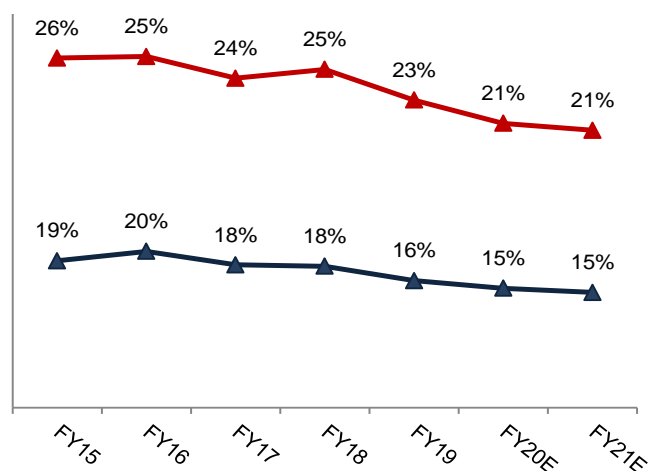


Exhibit: Return Ratios

Lower profitability reduced the return ratio.



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	635	705
Networth	285	325	380	451	525	590	649	720
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	649	720
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	159	173
Debtors	136	172	192	212	279	284	289	315
Cash & Bank	5	4	36	53	40	49	97	113
Other Curr Assets	25	32	33	32	29	27	26	28
Curr Assets	283	321	372	455	559	572	659	723
Creditors	157	191	178	215	265	261	262	285
Provisons (both)	35	43	45	27	28	29	28	30
Other Curr Liab	43	41	50	54	10	54	58	59
Curr Liabilities	231	265	264	286	337	335	336	361
Net Curr Assets	52	55	108	169	222	236	323	362
Total Assets	586	616	672	770	901	969	1,028	1,125

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,287	1,444	1,438	1,529	1,833	2,076	1,993	2,170
Change (%)	7%	12%	0%	6%	20%	13%	-4%	9%
Other Income	6	4	3	5	7	9	12	16
EBITDA	90	116	129	144	171	178	149	172
Change (%)	10%	29%	11%	12%	19%	4%	-16%	16%
Margin (%)	7.0%	8.1%	9.0%	9.4%	9.3%	8.6%	7.5%	7.9%
Depr & Amor.	27	31	33	35	38	41	45	49
EBIT	63	85	96	109	133	137	104	123
Int. & other fin. Cost	9	5	2	2	3	3	3	3
EBT	60	84	96	112	137	143	113	136
Exp Item	4	1	1	2	-	-	-	-
Tax	13	24	20	29	43	48	28	34
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	43	61	75	82	94	95	85	102
Adjusted PAT	43	61	75	82	94	95	85	102
Change (%)	12%	42%	24%	8%	15%	1%	-11%	20%
Margin(%)	3.3%	4.2%	5.2%	5.3%	5.1%	4.6%	4.2%	4.7%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	15%	19%	20%	18%	18%	16%	13%	14%
ROCE	21%	26%	25%	24%	25%	23%	16%	17%
Asset Turnover	2.2	2.3	2.1	2.0	2.0	2.1	1.9	1.9
Debtor Days	39	44	49	51	56	50	53	53
Inv Days	33	28	28	31	30	29	29	29
Payable Days	45	48	45	51	53	46	48	48
Int Coverage	7	16	40	66	46	47	36	43
P/E	10.0	19.9	17.1	21.4	22.3	21.0	20.2	16.8
Price / Book Value	1.5	3.7	3.4	3.9	4.0	3.4	2.6	2.4
EV/EBITDA	4.8	10.4	9.7	11.8	12.2	11.2	11.4	9.8
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	113	136
(inc)/Dec in Working Capital	(9)	(2)	(17)	(3)	(22)	(19)	3	(16)
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)	(28)	(34)
others	(1)	(1)	1	(3)	(9)	(13)	-	-
CF from Op. Activities	69	96	91	117	104	93	135	137
(inc)/Dec in FA & CWIP	(40)	(35)	(39)	(51)	(48)	(44)	(18)	(81)
Free Cashflow	29	61	52	65	56	49	117	56
(Pur)/Sale of Inv	-	-	-	-	(31)	-	-	-
others	3	10	3	(71)	15	(31)	(44)	(9)
CF from Inv. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(62)	(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)	(26)	(31)
others	(9)	(9)	(7)	-	(0)	(3)	-	-
CF from Fin. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(62)	(90)
Inc(Dec) in Cash	1	(1)	32	(31)	14	(13)	45	13
Add: Opening Balance	3	4	3	35	4	18	5	17
Closing Balance	4	3	35	4	18	5	94	110

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Analyst's ownership of the stocks mentioned in the Report	NIL
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