

Industry
Bloomberg
BSE CODE

Auto Ancillary
GABR IN
505714

Industry headwinds lead to decline in Volumes

RATING	NEUTRAL
CMP	108
Price Target	112
Potential Upside	4%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	158/85
Mkt Capital (Rs Cr)	1537
Free float (%)	46%
Avg. Vol 1M (,000)	80
No. of Shares (Crs)	14
Promoters Pledged %	0%

3QFY20 Result Update

- Revenue declined by 10.7% YoY to Rs 455 crs (vs. expect. Rs 479 crs) led by 8%, 13% & 20% YoY decline in 2Ws, Passenger vehicle (PV) and commercial vehicle (CV) segment respectively.
- The segment mix stands at 66%, 22% and 12% for 2Ws, PV and CV respectively.
- On 9MFY20, the automobile industry volumes declined by 13% YoY. PV declined by 16%YoY led by decline of 23% & 37% in passenger cars and Vans. CV, 2W & 3W segments have declined by 20-40%, 2% and 16%YoY respectively. However, UV segment grew by 6.4%YoY.
- Gross margin expanded by 196 bps QoQ to 27.1% on account due to softening of commodity prices. EBITDA margin have also expanded by 47 bps QoQ to 7.1%.
- PAT stood at Rs 18 crs (vs. expect. Rs 19 crs) and PAT margin was at 3.9%. PAT de-grew by 20.4% YoY.
- CAPEX: FY20- Rs 70 cr out of this Rs 30 cr is for 4QFY20. Capex for FY21 will be slightly higher than FY20.
- The company has started supplies to Maruti S-Presso (10k-12k per month) and Activa front fork started in 1st week of Jan 2020.

View and Valuation

Overall volume growth across segments remained challenging due to uncertain demand environment, lower than expected pre-buying of BS IV & regulatory changes. Commercial and Passenger vehicle segments may take 2-3 quarter to recover going ahead. The recovery in export market is expected to come in FY21 based on new customer additions. Weaker operating leverage and higher fixed cost on upcoming Sanand plant will keep the margins below 9%. Factoring the sluggish demand environment and deterioration in margins, we value GABRIEL at 16x FY21e EPS to arrive at a target price of Rs.112 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.

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Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1529	1833	2076	1950	2106
EBITDA	144	171	178	138	167
EBIT	109	133	137	93	118
PAT	82	94	95	76	98
EPS (Rs)	6	7	7	5	7
EPS growth (%)	8	15	1	-20	28
ROE (%)	18	18	16	12	14
ROCE (%)	24	25	23	14	16
BV	31	37	41	45	50
P/B (X)	3.9	4.0	3.4	2.3	2.1
P/E (x)	21.4	22.3	21.0	19.7	15.4

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Revenue below estimates

3QFY20 Results

Stand./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	510	510	517	473	455	-11%	-4%	1,833	2,076	13%
Other Income	3	3	2	2	3	-1%	12%	7	9	30%
Total Income	513	513	519	475	458	-11%	-4%	1,840	2,086	13%
COGS	371	377	380	354	332	-10%	-6%	1,311	1,507	15%
Staff Cost	38	37	40	39	40	7%	4%	138	154	12%
Other Exp.	59	61	56	49	51	-13%	4%	214	238	11%
Expenditure	467	476	476	441	423	-9%	-4%	1,662	1,899	14%
EBITDA	43	35	41	31	32	-25%	3%	171	178	4%
Depreciation	10	10	10	10	10	1%	-2%	38	41	7%
EBIT	33	24	31	21	22	-33%	6%	133	137	3%
Interest	1	1	1	1	1	32%	-16%	3	3	0%
PBT	35	26	32	22	24	-32%	7%	137	143	4%
Excpt. Item	-	-	-	-	-			-	-	
Tax	13	9	10	4	6	-51%	68%	43	48	12%
PAT	22	18	22	18	18	-20%	-5%	94	95	1%

Concall highlights

- The slowdown was led by cyclical trend, structural & regulation reasons, and also no direct measures in union budget for automobile sector for short term. For long term, road infrastructure and rural development measures may be beneficial for long term.
- On overall basis, uncertainty will be there for coming months and by next festive season things will start coming on track.
- 9MFY20 saw double digit decline in volumes at around 13% YoY. PV declined by 16% led by decline of 23% & 37% in passenger cars and Vans. CV, 2W & 3W segment declined by 20-40%, 2% and 16% respectively. UV grew by 6.4%.
- Big impact is seen from transition of BSIV to BSVI on 2W segment specially, there is price hike of 9-11%.
- 1QFY21 will remain tough quarter due to BS VI price hikes and management is not sure regarding customers reaction for the same.
- Transition of BSIV to BSVI had lower impact to petrol cars (2-3%) in comparison of diesel cars (10%).
- Company is prudently looking for cost cutting, improving manpower and better cash flow.
- Volkswagen Russia export order is currently being evaluated by company under high value segment.
- Activa: Company's share of business is comparatively lower in new version than previous one. Though, value share is much higher for the same.
- Railway segment grew by 40% as it is changing all coaches to LHB (Linke Hofmann Busch) coaches.
- The company is looking to improve EBITDA from current level.
- CAPEX: FY20- Rs 70 cr out of this Rs 30 cr is for 4QFY20. Capex for FY21 will be slightly higher than FY20. In FY20 & Fy21, some investment would be there for automation.
- To increase exports, OEM order would have orders from new geographies. FY21: Netherlands for CV and Russia for Volkswagen.
- Coronavirus: the company is not much impacted by Coronavirus though there is some impact on the industry. Production is already started in China as told the company's suppliers.
- New Model: started in 3QFY20, Maruti S-PRESSO, volumes are good (10k-12k per month) and activa front fork started in 1st week of Jan 2020.

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

Revenue de-grew by 10.7% YoY due to degrowth in 2W/3W, PV and CV segment.

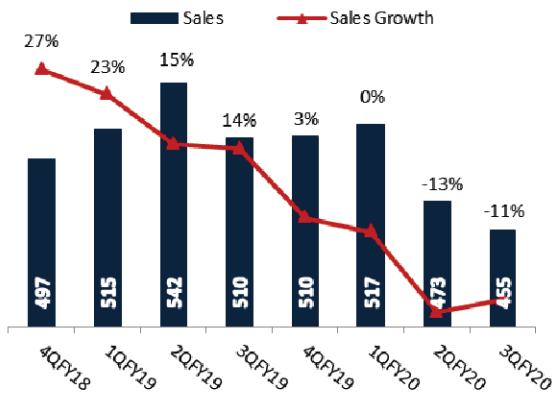


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin trend

Higher employee cost and other expenses led to lower expansion in EBITDA margins.

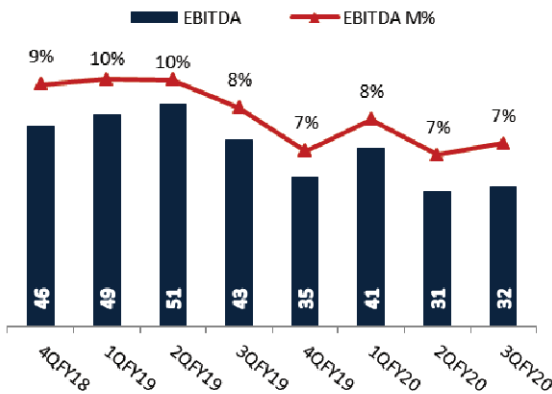


Exhibit: Channel Mix Revenue growth

OEM & after market share in revenue mix increased by 1% in each to 85% and 13% respectively.

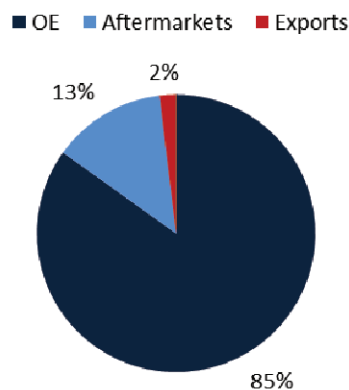


Exhibit: Segment Wise Revenue (Rs. Crore)

2W/3W, PV and CV segment revenue declined by 8%, 13% and 20% YoY respectively in 3QFY20.

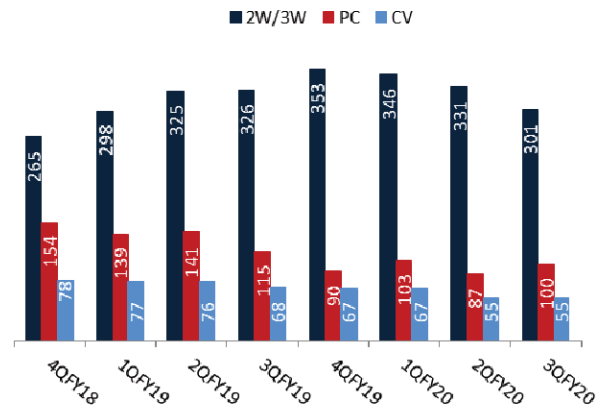


Exhibit: PAT (Rs. Crore) and PAT Margin trend

PAT margin level sustained on account of lower tax during the quarter.

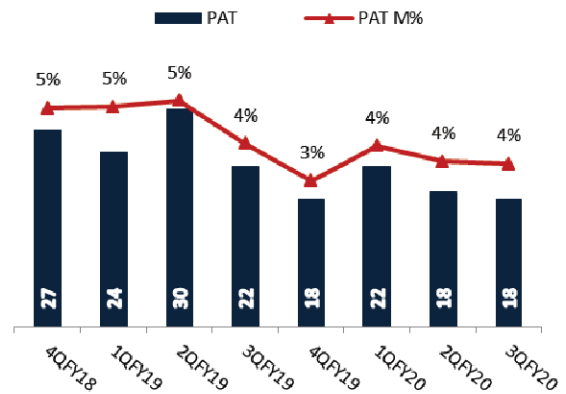
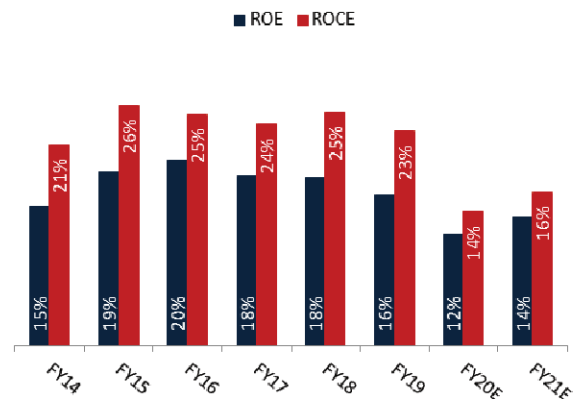


Exhibit: Return Ratios

Lower profitability reduced the return ratio.



Financial Details

Balance Sheet

Stand./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	629	697
Networth	285	325	380	451	525	590	643	711
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	643	711
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	155	168
Debtors	136	172	192	212	279	284	283	306
Cash & Bank	5	4	36	53	40	49	96	111
Other Curr Assets	25	32	33	32	29	27	25	27
Curr Assets	283	321	372	455	559	572	647	705
Creditors	157	191	178	215	265	261	256	277
Provisons (both)	35	43	45	27	28	29	28	29
Other Curr Liab	43	41	50	54	10	54	58	58
Curr Liabilities	231	265	264	286	337	335	329	352
Net Curr Assets	52	55	108	169	222	236	317	353
Total Assets	586	616	672	770	901	969	1,016	1,107

Income Statement

Stand./Fig in Rs Cr

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	1,950	2,106
Change (%)	7%	12%	0%	6%	20%	13%	-6%	8%
Other Income	6	4	3	5	7	9	12	15
EBITDA	90	116	129	144	171	178	138	167
Change (%)	10%	29%	11%	12%	19%	4%	-22%	21%
Margin (%)	7%	8%	9%	9%	9%	9%	7%	8%
Depr & Amor.	27	31	33	35	38	41	45	49
EBIT	63	85	96	109	133	137	93	118
Int. & other fin. Cost	9	5	2	2	3	3	3	3
EBT	60	84	96	112	137	143	102	130
Exp Item	4	1	1	2	-	-	-	-
Tax	13	24	20	29	43	48	26	33
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	43	61	75	82	94	95	76	98
Adjusted PAT	43	61	75	82	94	95	76	98
Change (%)	12%	42%	24%	8%	15%	1%	-20%	28%
Margin(%)	3%	4%	5%	5%	5%	5%	4%	5%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	15%	19%	20%	18%	18%	16%	12%	14%
ROCE	21%	26%	25%	24%	25%	23%	14%	16%
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	33	41
P/E	10.0	19.9	17.1	21.4	22.3	21.0	19.7	15.4
Price / Book Value	1.5	3.7	3.4	3.9	4.0	3.4	2.3	2.1
EV/EBITDA	4.8	10.4	9.7	11.8	12.2	11.2	10.8	8.9
FCF per Share	2	4	4	5	4	3	8	4

Cash Flow Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	56	84	95	111	137	143	102	130
(inc)/Dec in Working Capital	(9)	(2)	(17)	(3)	(22)	(19)	7	(14)
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)	(26)	(33)
others	(1)	(1)	1	(3)	(9)	(13)	-	-
CF from Op. Activities	69	96	91	117	104	93	131	135
(inc)/Dec in FA & CWIP	(40)	(35)	(39)	(51)	(48)	(44)	(18)	(81)
Free Cashflow	29	61	52	65	56	49	113	54
(Pur)/Sale of Inv	-	-	-	-	(31)	-	-	-
others	3	10	3	(71)	15	(31)	(43)	(9)
CF from Inv. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(61)	(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)	(23)	(30)
others	(9)	(9)	(7)	-	(0)	(3)	-	-
CF from Fin. Activities	(36)	(25)	(36)	(123)	(64)	(75)	(61)	(90)
Inc(Dec) in Cash	1	(1)	32	(31)	14	(13)	44	12
Add: Opening Balance	3	4	3	35	4	18	5	16
Closing Balance	4	3	35	4	18	5	93	108

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