

18 August 2024

Gabriel, India

Robust sunroof; expansions, a strong value driver; retaining a Buy

Above our Rs833m estimate, Gabriel's Q1 consolidated EBITDA grew a huge 32% y/y to Rs907m, driven by more-than-expected IGSSPL (sunroof) margins. On the change in the Anand Group's strategy, its entry into the high growth "sunroof" product line is positive and would be a major value driver. Further diversification into new product lines would keep growth strong. The next product line announcement is expected in FY25 and another two in the next 3-4 years. The company is our top pick in small-cap ancillaries. We retain a Buy at a higher TP of Rs610, 25x standalone FY26e P/E (earlier Rs500) and the sunroof (now 100% holding) at Rs165/sh (earlier Rs55 for 49% holding).

Strong sunroof margins. Consolidated revenue grew 17% y/y to Rs9.5bn, in line with our Rs9.5bn estimate. In suspensions, OEMs grew ~12%, while aftermarket was flat, but exports fell ~46%. Sunroof revenue grew 37% q/q to Rs823m. EBITDA grew 32% y/y to Rs907m, above our Rs833m estimate, driven by better-than-expected sunroof margins. The sunroof EBITDA margin was a 14% robust vs 1.8% in Q4 FY24 (after royalty). The standalone EBITDA margin expanded 50bps y/y to 9% (but q/q was flat), including royalty/management fees from IGSSPL a small ~20-30bps benefit). Overall, PAT grew 37% y/y to Rs576m, above our Rs524m estimate, due to more-than-expected operating profit. Standalone PAT grew 20% y/y to Rs512m. Sunroof PAT was Rs64m vs a Rs55m loss in the quarter prior.

Valuation. We expect robust, 18%/27%, consolidated revenue/PAT CAGRs over FY24-26. Our FY25e-26e parent EPS are broadly unchanged. We retain a Buy at a higher TP of Rs610, 25x parent FY26e P/E (earlier Rs500, 25x FY26e), and the sunroof DCF-based value of Rs165/sh (earlier Rs55). The sunroof TP was raised as the company became a 100% equity holder post rejection of the JV approval by the GoI (PN3) and higher margin assumptions. We factor in revenue from coming expansions (Rs7bn JV by FY30 or a 3% higher CAGR) on a DCF-derived multiple of 25x. **Key risks:** Less-than-expected growth in underlying segments, slower traction in new product lines, adverse commodity movements.

Key financials (YE Mar) - P	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	23,320	29,717	33,426	37,145	41,948
Net profit (Rs m)	895	1,324	1,852	2,174	2,563
EPS (Rs)	6.2	9.2	12.9	15.1	17.8
P/E (x)	78.3	53.0	37.9	32.2	27.4
EV / EBITDA (x)	47.2	32.0	23.6	20.0	16.8
P/BV (x)	9.1	8.1	6.9	6.0	5.2
RoE (%)	12.2	16.2	19.7	20.0	20.4
RoCE (%)	12.2	16.1	19.6	20.1	20.5
Dividend yield (%)	0.3	0.3	0.8	0.9	1.0
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.1	-0.1

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price: Rs.610

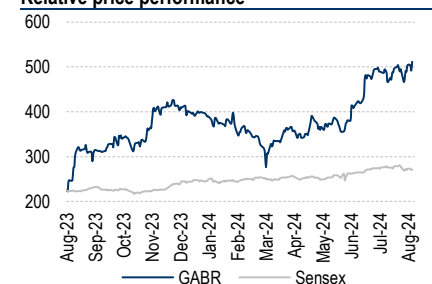
Share Price: Rs.488

Key data	GABR IN / GABR.BO
52-week high / low	Rs545 / 225
Sensex / Nifty	80437 / 24541
3-m average volume	\$3.8m
Market cap	Rs70bn / \$835.1m
Shares outstanding	144m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	55.0	55.0	55.0
- of which, Pledged	-	-	-
Free float	45.0	45.0	45.0
- Foreign institutions	4.9	4.4	4.1
- Domestic institutions	12.1	12.0	12.2
- Public	28.0	28.6	28.7

Estimates revision % (P)	FY25e	FY26e
Sales	0.1	1.7
EBITDA	0.6	1.7
EPS	0.0	0.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (Standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	23,320	29,717	33,426	37,145	41,948
Growth (%)	37.2	27.4	12.5	11.1	12.9
Raw material cost	17,863	22,688	25,051	27,727	31,228
Other direct costs	3,998	4,892	5,476	5,993	6,663
EBITDA	1,459	2,137	2,899	3,426	4,058
EBITDA margins (%)	6.3	7.2	8.7	9.2	9.7
- Depreciation	414	486	566	628	709
Other income	262	174	221	203	187
Interest expenses	43	46	54	63	72
PBT	1,265	1,779	2,500	2,938	3,463
Effective tax rates (%)	29	26	26	26	26
+ Associates / (Minorities)					
Adjusted income	895	1,324	1,852	2,174	2,563
Extraordinary items	-	-	-	-	-
Net income	895	1,324	1,852	2,174	2,563
WANS	144	144	144	144	144
FDEPS (Rs)	6.2	9.2	12.9	15.1	17.8

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	144	144	144	144	144
Net worth	7,668	8,703	10,087	11,614	13,459
Debt	111	94	87	87	87
Minority interest					
DTL / (Assets)	145	159	133	133	133
Capital employed	7,923	8,956	10,307	11,834	13,679
Net tangible assets	3,720	4,048	4,198	4,770	5,380
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	203	296	368	368	368
Investments (strategic)	28	75	368	868	1,268
Investments (financial)	832	784	1,016	1,016	1,316
Current assets (excl. cash)	8,203	8,002	9,438	9,949	10,872
Cash	546	1,075	732	636	697
Current liabilities	5,608	5,324	5,814	5,773	6,223
Working capital	2,595	2,678	3,625	4,176	4,649
Capital deployed	7,923	8,956	10,307	11,834	13,679
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	1,265	1,779	2,500	2,798	3,348
+ Non-cash items	456	532	620	831	896
Oper. prof. before WC	1,721	2,311	3,121	3,629	4,244
- Incr. / (decr.) in WC	356	424	361	552	473
Others incl. taxes	415	523	871	764	900
Operating cash-flow	950	1,364	1,889	2,314	2,871
- Capex (tang. + intang.)	756	920	917	1,200	1,320
Free cash-flow	194	443	972	1,114	1,551
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	180	274	453	646	718
+ Equity raised	-	-	-	-	-
+ Debt raised	-32	-28	-24	-	-
- Fin investments	-982	219	-530	500	700
- Misc. (CFI + CFF)	1,328	-606	1,366	63	72
Net cash-flow	-365	529	-343	-96	61

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	78.3	53.0	37.9	32.2	27.4
EV / EBITDA (x)	47.2	32.0	23.6	20.0	16.8
EV / Sales (x)	3.0	2.3	2.0	1.8	1.6
P/B (x)	9.1	8.1	6.9	6.0	5.2
RoE (%)	12.2	16.2	19.7	20.0	20.4
RoCE (%) - after tax	12.2	16.1	19.6	20.1	20.5
RoIC (%) - after tax	10.8	16.1	19.8	19.9	20.5
DPS (Rs)	1.6	1.7	4.0	4.5	5.0
Dividend yield (%)	0.3	0.3	0.8	0.9	1.0
Dividend payout (%)	24.9	17.9	31.0	29.7	28.0
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.1	-0.1
Receivables (days)	60	47	49	46	46
Inventory (days)	43	36	34	34	34
Payables (days)	97	71	71	64	62
CFO : PAT %	106	103	102	106	112

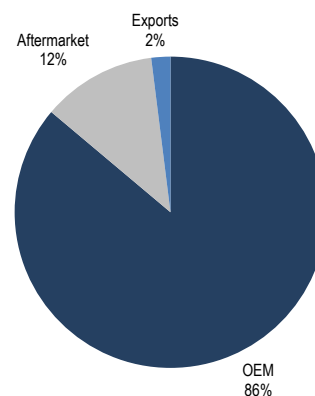
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Segment-wise break-up, Q1 FY25, standalone



Source: Company

Earnings call takeaways

Sunroof

- PN3 approval for JV formation with Inalfa (Chinese ownership) by DPIIT has been rejected. However, the partnership would continue under the terms of the Technical Collaboration and Alliance Agreement (TLA or TCA) as executed with Inalfa on 9th May'24. Inalfa is strongly committed to the India market and would continue to look out for JV formation options.
- No changes in **royalty rates/management fees** of 5-6% for IGSSPL without JV. The royalty is paid to Gabriel and Inalfa. Also management fees are paid to Gabriel. Royalty/management fees are part of standalone revenue (part of service income).
- **Orders.** Advance discussion with Stellantis for an order. Most likely order wins for Skoda/VW's new platform. Competition is expected to intensify with new entrants, while have strong relationship with Maruti Suzuki and see as potential customer. Expects to be one of the top 2 in India in the medium to long term. Inalfa is strong with Korean and German players (VW, Mercedes) globally.
- Q1 FY25 **EBITDA margin** of 14% is sustainable, with potential to improve further led by operating scale and localisation. For the next Kia model, localisation would be higher, including in the supplier ecosystem.
- For phase 1 of capacity expansion, investment was Rs860m. Loan to IGSSPL from the standalone entity was Rs595m.

Suspension

- Q1 FY25 **exports** were muted due to the slowdown in Europe (DAF) and Columbia. Also, offtake was impacted by the Red Sea issues. Expects exports to ramp up led by orders from DAF/Daimler Fuso. Also, in discussion with Volvo. Axle dampers order from DAF is in the RFQ stage.
- Lost a little **market share** in 2Ws due to slower Bajaj Auto's export volumes (supplies mainly for export products), while gained share in PVs, led by new products (Curvv, Basalt). Recently won orders for Bajaj Auto's Pulsar and Dominar. Maruti Suzuki and Tata Motors have shown interest in the FSD product.
- Ola Electric has awarded Gabriel for fastest product development.
- Won order for Siemens E-loco for **Railways**.
- **Aftermarket** is slow, but new traded products like alloy wheels are supporting revenue for Gabriel.
- Gabriel Europe Engineering Centre revenues are basically inter-company sales.
- Maintains **EBITDA margin** target of 10% by FY26 led by higher exports/ aftermarket, Core 90 cost reduction program and more profitable new segments like e-bicycle front forks and solar dampers.

Result highlights

Fig 7 – Quarterly performance (Rs m) – Consolidated

(Rs m)	Q1FY24	Q4FY24	Q1FY25	Y/Y (%)	Q/Q (%)
Revenue	8,058	9,170	9,466	17.5	3.2
Expenditure	7,372	8,365	8,558	16.1	2.3
<i>as % of sales</i>	91.5	91.2	90.4		
Consumption of RM	6,026	6,909	7,024	16.6	1.7
<i>as % of sales</i>	74.8	75.3	74.2		
Employee cost	497	559	602	21.2	7.6
<i>as % of sales</i>	6.2	6.1	6.4		
Other expenditure	850	896	932	9.6	4.0
<i>as % of sales</i>	10.5	9.8	9.8		
EBITDA	685	805	907	32.4	12.7
Depreciation	137	177	188	36.6	6.1
EBIT	548	628	720	31.3	14.6
Other income	46	59	63	35.8	7.2
Interest	22	23	22	0.4	(3.3)
PBT	572	664	760	32.9	14.6
Total tax	152	173	184	21.3	6.4
Adjusted PAT	420	490	576	37.1	17.4
Extraordinary items Loss/(Gain)	0	0	0		
Reported PAT	420	490	576	37.1	17.4
Adjusted EPS	3.0	3.7	3.6	20.4	(3.0)
Margins (%)				(bps)	(bps)
Gross	25.2	24.7	25.8	57	114
EBIDTA	8.5	8.8	9.6	108	81
EBIT	6.8	6.8	7.6	80	75
PAT	5.2	5.3	6.1	87	74
Effective Tax rate	26.6	26.1	24.3	(231)	(186)

Source: Company

Valuation

Market share to aid outperformance in suspensions. We expect a 12% revenue CAGR over FY24-26, driven by OEM growth (13%), replacements (6%) and exports (10%). The company is gaining 2W, PV and CV share from OEMs. The 2W market-share improvement is driven by key customers doing well (HMSI, TVS, Bajaj) and the company's strong, >70%, market share in EVs. The PV market share is improving due to a favourable share in UVs and more customers.

Diversification to be a strong value driver. The company entered TLA with Inalfa (the second largest company globally) to manufacture sunroofs. It expects strong, Rs3bn-4bn, revenue in FY25 and more than Rs10bn by FY30. The EBITDA margin would hit double digits. Per DCF calculation, the sunroof division's enterprise value comes to Rs23.7bn (or Rs155/sh). Further, it expects 2-3 product lines to be added in the medium term.

View, Valuations. We expect robust, 18%/27%, consolidated revenue/PAT CAGRs over FY24-26. We recommend a Buy at a TP of Rs610, 25x parent FY26e P/E (earlier Rs500, 25x FY26e), and sunroof DCF-based value of Rs165/sh (earlier Rs55). We factor in revenue from coming expansions (Rs7bn JV by FY30 or a 3% higher CAGR) on a DCF-derived multiple of 25x.

The suspensions division is healthy, with strong growth across segments. The entry to the high-growth sunroof product line is positive and would be a major value driver. Further diversification into new product lines would keep the momentum going. The company **is our top pick in small-cap auto ancillaries**.

Fig 8 – Change in estimates

(Rs bn)	Old		New		% Change	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	37,119	41,252	37,145	41,948	0.1	1.7
EBITDA	3,405	3,990	3,426	4,058	0.6	1.7
% of revenue	9.2	9.7	9.2	9.7		
Adj. PAT	2,173	2,545	2,174	2,563	0.0	0.7
EPS (Rs)	15.1	17.7	15.1	17.8	0.0	0.7

Source: Anand Rathi Research

Fig 9 – Key assumptions – standalone (suspension)

Standalone (Rs m)	FY22	FY23	FY24	FY25e	FY26e	CAGR (%) FY24-26
OEM	18,994	24,796	28,215	31,609	35,853	13
YY change, %	38	31	14	12	13	
Replacement	3,315	3,876	4,192	4,402	4,754	6
YY change, %	29	17	8	5	8	
Export	1,011	1,045	1,019	1,070	1,230	10
YY change, %	64	3	(2)	5	15	
Total	23,320	29,717	33,426	37,081	41,838	12
YY change, %	37	27	12	11	13	

Source: Company, Anand Rathi Research

Fig 10 – Key assumptions – Sunroof

(Rs m)	FY24	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e	CAGR (%) FY24-30
Volumes	23,000	1,20,000	1,99,621	3,26,745	4,18,379	5,01,152	5,68,344	71
YY change, %		422	66	64	28	20	13	
Realizations	26,078	26,861	27,666	28,496	27,072	25,718	24,432	(1)
YY change, %		3	3	3	(5)	(5)	(5)	
Revenue	600	3,223	5,523	9,311	11,326	12,889	13,886	69
YY change, %		437	71	69	22	14	8	
EBITDA	11	435	773	1,369	1,688	1,933	2,083	141
YY change, %		4,005	78	77	23	15	8	
% of revenue	1.8	13.5	14.0	14.7	14.9	15.0	15.0	
PAT	(55)	116	326	740	946	1,090	1,136	
YY change, %			180	127	28	15	4	
% of revenue	(9.2)	3.6	5.9	7.9	8.3	8.5	8.2	

Source: Company, Anand Rathi Research

Fig 11 – Consolidated P/L

Consolidated P/L	FY24	FY25e	FY26e	CAGR (%) FY24-26
Revenue	34,026	40,369	47,471	18
YY change, %		19	18	
EBITDA	2,926	3,877	4,847	29
YY change, %		33	25	
% of revenue	8.6	9.6	10.2	
PAT	1,787	2,281	2,879	27
YY change, %		28	26	
% of revenue	5.3	5.6	6.1	
EPS	12.4	15.9	20.0	27
YY change, %		28	26	

Source: Company, Anand Rathi Research

Fig 12 – Standard deviation



*Note: Based on Consolidated EPS. Source: Bloomberg, Anand Rathi Research

Risks

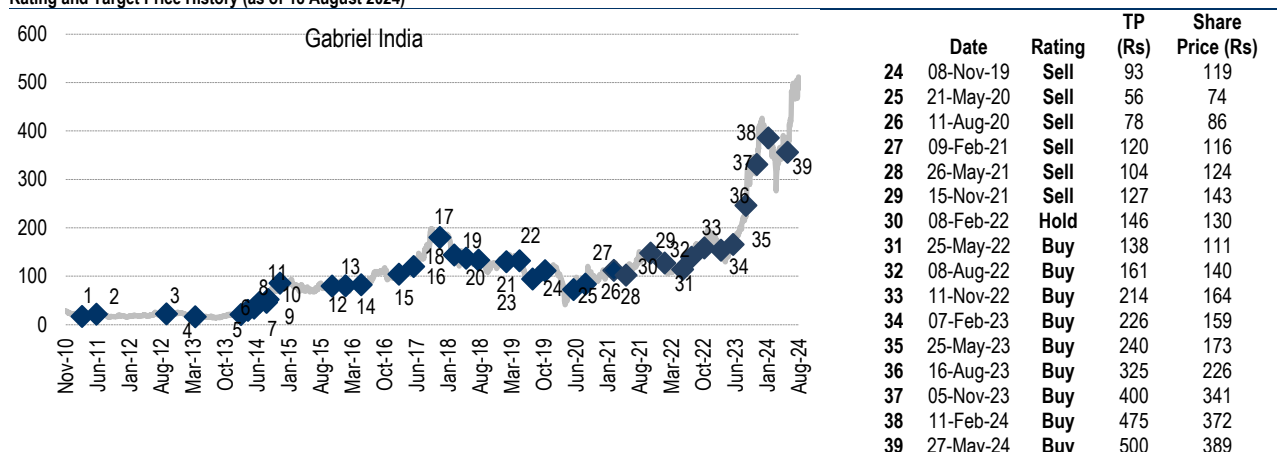
- Less-than-expected growth in underlying segments.
- Slower traction in new product lines.
- Adverse commodity movements.

Appendix

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