

Gabriel India

10 August 2018

Reuters: GABR.NS; Bloomberg: GABR IN

Strong Performance

Gabriel India (GIL) reported a strong 1QFY19 performance with sales, EBITDA and PAT beating our estimates by 2%/6%/5%, respectively. The company reported strong double-digit growth in commercial vehicle (CV) at ~50% and two-wheeler (2W) at ~25%, while growth in the passenger vehicle (PV) segment was marginal. Net sales at Rs5.14bn grew by a strong 23% YoY and were the highest ever for the company. EBITDA at Rs490mn also grew in strong double digits, the highest ever for the company. EBITDA margin at 9.5% improved 20bps YoY and QoQ and was 33bps above our estimate. GIL is one of the few companies to have reported QoQ margin expansion in 1QFY19. Gross margin at 28.6% remained strong, which is commendable given the higher share of OEMs, rise in commodity prices and increase in customs duty on certain imports. Following higher-than-expected sales and EBITDA, PAT at Rs267mn grew by a strong 30.7% YoY and was 5% above our estimate. The company has also increased the management fees to the Anand group from 1.5% to 2% from FY19 onwards, which was reflected in higher other expenditure despite which the margin stood at 9.5%. The company, in the post-result concall, indicated that demand remains strong from all the segments, while on the margin front the company maintained that it is working towards double-digit EBITDA margin. With 2W and CV OEMs giving guidance of double-digit growth in FY19, we believe GIL will get the benefit of the same as it derives 86% of its revenues from the OEM segment. In the passenger vehicle segment, GIL won an order from Maruti Suzuki for its refreshed Alto model, the sales of which will begin from FY20 and for whom GIL is the sole supplier. We have retained our positive outlook on GIL as we believe it is a good play on the domestic automobile industry. In FY18, GIL demonstrated strong growth which has been higher than industry growth in the respective segments i.e. 2W, CV and PV, indicating that it is gaining market share and is growing faster than the industry. We believe this momentum will continue over FY19/FY20 and expect GIL to report double-digit revenue growth. GIL stock currently trades at 15x FY20E estimates and we believe the risk-reward ratio is extremely favourable at the current level. We retain our Buy rating on GIL with a target price of Rs196 (21x FY20E earnings).

Strong growth in two-wheeler and commercial vehicle segments drives sales growth: GIL's 1QFY19 net sales grew by a strong 23% YoY with volume growing in double digits across segments. CVs and 2W were the fastest-growing segments during the quarter, with CV growing ~50% and 2W growing 25%. Following strong growth, revenue share from these segments rose to 58% and 15%, respectively, while the PV segment's share came down to 27%. OEM segment's share increased to 86% in 1QFY19 following strong OEM sales, while after-market sales remained the same at 11% and export share fell to 3%. GIL expects the after-market and export segments' share to improve going forward, while in case of PV segment new customer orders will result in a higher share going forward. GIL has won a new order from Maruti Suzuki for its refreshed Alto model which will be launched in FY20, to whom GIL is the sole supplier.

Margins surprise despite higher input costs and increase in management fees: GIL reported EBITDA margin of 9.5%, up 20bps YoY and QoQ, and was 33bps above our estimate. The increase in margins came at a time when the OEM segment's share has been higher and GIL witnessed input cost pressure because of rising commodity prices and increase in customs duty on imports. GIL, in FY19, increased management fees to the Anand group from 1.5% to 2% which was also reflected in higher other expenditure, despite which the margins at 9.5% came in higher than expected.

Outlook and valuation: We continue to like GIL because of its strong balance sheet and robust return ratios. GIL stock currently trades at 15x FY20E earnings and we believe the risk-reward ratio is favourable at the current level. We retain Buy rating on GIL with a target price of Rs196.

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BUY

Sector: Auto Ancillary

CMP: Rs142

Target Price: Rs196

Upside: 38%

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Key Data

Current Shares O/S (mn)	143.6
Mkt Cap (Rsbn/US\$m)	20.6/299.9
52 Wk H / L (Rs)	223/129
Daily Vol. (3M NSE Avg.)	118,364

Price Performance (%)

	1 M	6 M	1 Yr
Gabriel India	0.1	(12.8)	(12.1)
Nifty Index	2.0	(2.1)	8.6

Source: Bloomberg

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Revenues	4,176	4,968	5,146	23.2	3.6
Raw material costs	2,886	3,502	3,610	25.1	3.1
Staff costs	317	361	398	25.3	10.3
Other expenses	492	598	586	19.0	(2.0)
Total expenditure	3,786	4,504	4,656	23.0	3.4
EBITDA	390	464	490	25.6	5.8
EBITDAM (%)	9.3	9.3	9.5	18bps	19bps
Depreciation	96	107	106	9.8	(0.9)
Interest costs	7	7	8	2.4	5.3
Other income	16	25	19	19.1	(24.5)
PBT	302	374	396	30.8	5.7
Tax	98	117	128	30.9	9.4
Net profit	204	257	267	30.7	4.0
NPM (%)	4.9	5.2	5.2	30bps	2bps
EPS (Rs)	1.4	1.8	1.9	30.7	4.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Revenues	14,382	15,291	18,331	20,978	23,518
EBITDA	1,293	1,440	1,713	2,014	2,352
Adj. PAT	752	816	942	1,133	1,344
EPS (Rs)	5.2	5.7	6.6	7.9	9.4
EPS growth (%)	25.4	8.4	15.5	20.2	18.6
EBITDA margin (%)	9.0	9.4	9.3	9.6	10.0
P/E (x)	27.1	25.0	21.6	18.0	15.2
P/BV (x)	5.4	4.5	3.9	3.3	2.8
EV/EBITDA (x)	15.6	13.9	11.7	10.0	8.6
RoE (%)	21.3	19.6	19.3	20.0	20.3
RoCE (%)	26.4	25.6	26.8	27.4	27.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

(Rsmn)	New estimates		Old estimates		Change (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Volume	35.9	39.8	35.9	39.8	-	-
Net sales	20,978	23,518	20,978	23,518	-	-
EBITDA	2,014	2,352	2,014	2,352	-	-
EBITDA margin (%)	9.6	10.0	9.6	10.0	-	-
PAT	1,133	1,344	1,133	1,344	-	-
EPS (Rs)	7.9	9.4	7.9	9.4	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance in 1QFY19

(Rsmn)	Actual performance 1QFY19	Our estimate 1QFY19	Deviation %
Net sales	5,146	5,039	2.1
EBITDA	490	463	5.8
Net profit	267	254	5.1

Source: Nirmal Bang Institutional Equities Research

Key takeaways from the post-result conference call

- Automobile industry demand during the quarter was healthy and is expected to continue going forward. Growth during the quarter was a result of strong performance across all segments with two-wheeler, passenger vehicle (PV), commercial vehicle (CV) and railway segments doing well. The after-market segment has also done well, although not as per the company's expectations. The company's profitability during the quarter improved because of control over expenses.
- GIL's growth during 1QFY19 was buoyant because of good automobile demand growth and the management continues to remain optimistic with respect to future growth as well. Its two-wheeler segment recorded revenue growth of 25%, PC segment's growth was marginal while the CV segment registered 50% YoY growth. During the quarter, two-wheeler/three-wheeler segments contributed 58% to revenues (56% in FY18), while the PV segment accounted for 27% (31% in FY18).
- With the sharp growth in CV segment, the share of CV contribution to sales has gone up to 15% from 13% in March 2018.
- GIL enjoys a CV market share of ~85%, its passenger car and two-wheeler segment share stood at 25%, while in three-wheelers its share was close to 65%. It has a 25% market share in the railway segment and ~43% in the after-market segment. The company has made strong efforts in the two-wheeler segment which has enabled it to improve the after-market and two-wheeler segments' sales volume as well as market share in some three-wheeler models.

- The quarter witnessed an increase in business from the OEM segment because of strong growth experienced in the OEM market during the period. GIL won a business order from Maruti Suzuki India for which it will be the sole supplier in the next financial year.
- The company indicated that it will derive the benefit of higher two-wheeler volume going forward because of competitive pricing among OEM players, although GIL will have to improve efficiency and supply chain in order to make supplies at lower costs.
- Revenues from high-margin export markets have done well during the quarter with the after-market segment's exports growing robustly at over 30%.
- GIL witnessed higher demand from OEMs (accounting for 86% of its sales) during the quarter relative to the after-market segment. While the OEM industry has grown at a brisk pace, the after-market segment's sales have not been as per the company's expectations. The management expects this segment to recover going forward.
- Capital expenditure for FY19 is expected to be over Rs1,500mn which will be funded from internal accruals. Of this, Rs400mn will be incurred towards plant expansion apart from R&D.
- Higher other expenses reflect an increase in management fees to 2% from 1.5%. The effective tax rate is expected to continue to be close to the 1QFY19 level.

Exhibit 4: P/E



Source: Nirmal Bang Institutional Equities Research

Exhibit 5: EV/EBITDA



Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	14,382	15,291	18,331	20,978	23,518
% growth	(0.4)	6.3	19.9	14.4	12.1
Raw material expenses	10,267	10,844	13,106	14,936	16,651
Staff costs	1,150	1,279	1,377	1,552	1,740
Other expenses	1,672	1,728	2,136	2,475	2,775
Total expenditure	13,089	13,851	16,619	18,964	21,166
EBITDA	1,293	1,440	1,713	2,014	2,352
% growth	10.8	11.4	18.9	17.6	16.8
EBITDA margin (%)	9.0	9.4	9.3	9.6	10.0
Other income	25	54	71	81	95
Interest costs	25	17	29	24	22
Gross profit	4,115	4,447	5,225	6,042	6,867
% growth	2.7	8.1	17.5	15.6	13.7
Depreciation	332	353	383	444	486
Profit before tax	955	1,108	1,372	1,628	1,939
% growth	14.3	16.0	23.8	18.7	19.1
Tax	203	292	429	495	595
Effective tax rate (%)	21.2	26.4	31.3	30.4	30.7
Net profit	752	816	942	1,133	1,344
% growth	25.4	8.4	15.5	20.2	18.6
EPS (Rs)	5.2	5.7	6.6	7.9	9.4
% growth	25.4	8.4	15.5	20.2	18.6
DPS (Rs)	1.2	1.0	1.4	1.6	1.6
Payout (%)	22.9	18.7	27.2	29.6	28.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Equity	144	144	144	144	144
Reserves	3,655	4,362	5,105	5,950	7,017
Net worth	3,799	4,505	5,249	6,093	7,161
Net deferred tax liabilities	104	159	198	198	198
LT liabilities/provisions	72	97	117	117	117
Total loans	109	82	76	56	56
Liabilities	4,085	4,844	5,641	6,466	7,533
Gross block	5,563	5,858	6,320	7,920	8,620
Depreciation	2,838	2,972	3,355	4,018	4,504
Net block	2,724	2,885	2,965	3,901	4,115
Capital work-in-progress	22	18	78	78	78
Long-term investments	0	0	23	23	23
Other long-term assets	236	251	351	351	351
Inventories	1,107	1,298	1,491	1,538	1,724
Debtors	1,924	2,118	2,792	2,694	2,891
Current investments	-	280	623	472	1,222
Cash	377	527	400	224	261
Cash and cash equivalents	351	40	180	60	60
Other bank balance	25	488	220	164	201
Other current assets	326	323	287	287	287
Total current assets	3,734	4,546	5,592	5,215	6,386
Trade payables	1,781	2,147	2,650	2,737	3,055
Other current liabilities/provisions	850	710	717	365	365
Total current liabilities	2,631	2,857	3,367	3,102	3,420
Net current assets	1,102	1,690	2,224	2,112	2,965
Total assets	4,085	4,844	5,641	6,466	7,533

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	980	1,125	1,401	1,652	1,961
(Inc.)/dec. in working capital	(175)	(31)	(192)	(215)	(66)
Cash flow from operations	805	1,094	1,208	1,437	1,895
Other income	(12)	(35)	(54)	(64)	(77)
Depreciation	332	353	383	444	486
Tax paid	(215)	(245)	(429)	(495)	(595)
Net cash from operations	910	1,168	1,108	1,321	1,709
Capital expenditure	(369)	(513)	(462)	(1,600)	(700)
Net cash after capex	541	655	646	(279)	1,009
Other investment activity	11	(716)	(303)	224	(664)
Cash from financial activity	(231)	(251)	(161)	(2)	(308)
Increase/(decrease) in loans	(24)	(27)	(6)	(20)	-
Other financing activities	(208)	(224)	(156)	18	(308)
Opening cash balance	30	351	39	221	164
Closing cash balance	351	39	221*	164*	201*
Change in cash balance	321	(312)	181	(57)	37

*Other bank balances

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

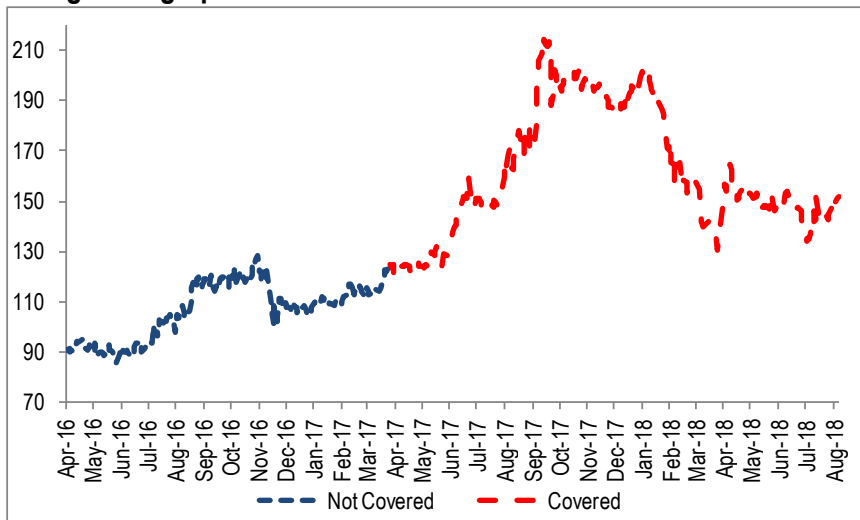
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Profitability & return ratios					
EBITDA margin (%)	9.0	9.4	9.3	9.6	10.0
EBIT margin (%)	6.7	7.1	7.3	7.5	7.9
Net profit margin (%)	5.2	5.3	5.1	5.4	5.7
RoE (%)	21.3	19.6	19.3	20.0	20.3
RoCE (%)	26.4	25.6	26.8	27.4	27.9
Working capital & liquidity ratios					
Receivables (days)	47	48	49	47	45
Inventory (days)	28	29	28	27	27
Payables (days)	51	52	53	53	53
Cash conversion cycle (WC days)	23	25	24	21	19
Current ratio (x)	1.4	1.6	1.7	1.7	1.9
Quick ratio (x)	1.0	1.1	1.2	1.2	1.4
Valuation ratios					
EV/Sales (x)	1.4	1.3	1.1	1.0	0.9
EV/EBITDA (x)	15.6	13.9	11.7	10.0	8.6
P/E (x)	27.1	25.0	21.6	18.0	15.2
P/BV (x)	5.4	4.5	3.9	3.3	2.8

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
27 March 2017	Buy	124	151
5 May 2017	Buy	120	151
17 May 2017	Buy	120	151
10 August 2017	Buy	163	168
14 November 2017	Accumulate	195	217
15 February 2018	Buy	160	223
14 May 2018	Buy	146	196

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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