Gabriel India

6 November 2018

2QFY19 Result Update

Reuters: GABR.NS; Bloomberg: GABR IN

In-line Quarter

Gabriel India (GIL) reported a strong 2QFY19 performance with sales, EBITDA and PAT beating our estimates by 2%/2%/4%, respectively. The company reported strong double-digit growth in net sales on the back of double-digit growth in two-wheelers and commercial vehicles - ~45% in case of commercial vehicles and ~20% in case of two-wheelers, while growth in the passenger vehicle (PV) segment was marginal. Net sales at Rs5.41bn grew by a strong 15% YoY and were the highest-ever for the company. EBITDA at Rs515mn also grew in strong double digits, the highest-ever for the company. EBITDA margin at 9.5% remained flat QoQ and was in line with our estimate. Gross margin at 27.6% fell 100bps QoQ, 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 Rs289mn was 4% 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 management, in the post-result conference-call, indicated that demand remains strong from most of the segments as they grew in double digits. While passenger vehicle segment revenues fell in single digits because of industry slowdown and no exports to Renault Iran, on the margin front, the company said that it is working towards double-digit EBITDA margin, but given the increase in raw material costs and input costs the same will not be possible in FY19. With two-wheeler and commercial vehicle 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 Citroen Peugot which will start contributing to revenues in the long run. The company has got orders from various OEMs for new launches/variants across segments the execution of which will start from FY20/FY21. The company will be supplying to Maruti Suzuki India 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 the industry's growth in the respective segments i.e. two-wheeler, commercial vehicle and passenger vehicle, 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 14x September quarter 2020E EPS and we believe the risk-reward ratio is extremely favourable at the current level. We have retained our Buy rating on GIL with a target price of Rs176 (18x September quarter 2020E earnings).

Strong growth in two-wheeler and commercial vehicle segments drives sales growth: GIL's 2QFY19 net sales grew by a strong 15% YoY with strong growth in CVs and two-wheelers - the fastest-growing segments during the quarter - with CVs growing ~45% and two-wheeler growing more than 20%. Following strong growth, revenue share from these segments rose to 14% and 60%, respectively, while the PV segment's share came down because of single-digit decline in sales. OEM segment's share increased to 86% in 2QFY19 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.

Margins surprise, despite higher input costs and increase in management fees: GIL reported EBITDA margin of 9.5%, up ~20bps YoY. 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 stood at 9.5%. The company is working towards double-digit EBITDA margin in the long run.

Outlook and valuation: We continue to like GIL because of its strong balance sheet and robust return ratios. GIL stock currently trades at 14x September quarter 2020E EPS and we believe the risk-reward ratio is favourable at the current level and the valuation not expensive. We have retained Buy rating on GIL with a target price of Rs176 (18x September quarter 2020E earnings) and rolled forward our earnings estimate to September 2020E earnings.

BUY

Sector: Auto Ancillary

CMP: Rs132

Target Price: Rs176

Upside: 33%

Gaurant Dadwal
Research Analyst
gaurant.dadwal@nirmalbang.com
+91-22-6273 8145

Vivek Sarin
Research Associate
vivek.sarin@nirmalbang.com
+91-22-6273 8176

Key Data

Current Shares O/S (mn)	143.6
Mkt Cap (Rsbn/US$mn)	19.5/267.1
52 Wk H / L (Rs)	204/115
Daily Vol. (3M NSE Avg.)	120,695

Price Performance (%)

	1 M	6 M	1 Yr
Gabriel India	15.0	(10.3)	(31.9)
Nifty Index	8.1	(9.8)	(7.8)

Source: Bloomberg

Y/E March (Rsmn)	2QFY18	1QFY19	2QFY19	YoY (%)	QoQ (%)
Revenues	4,717	5,146	5,415	*14.8*	*5.2*
Raw material costs	3,383	3,610	3,913	*15.7*	*8.4*
Staff costs	378	398	391	*3.2*	*(1.8)*
Other expenses	456	586	591	*29.5*	*0.9*
Total expenditure	4,257	4,656	4,900	*15.1*	*5.2*
EBITDA	460	490	515	*12.0*	*5.0*
EBITDAM (%)	*9.7*	*9.5*	*9.5*	*(24bps)*	*(2bps)*
Depreciation	88	106	100	*13.9*	*(5.2)*
Interest costs	10	8	8	*(18.3)*	*6.2*
Other income	11	19	21	*86.1*	*13.2*
PBT	373	396	428	*14.6*	*8.1*
Tax	108	128	138	*28.4*	*7.7*
Net profit	266	267	289	*8.9*	*8.3*
NPM (%)	*5.6*	*5.2*	*5.3*	*(29bps)*	*15bps*
EPS (Rs)	1.8	1.9	2.0	*8.9*	*8.3*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Key financials

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Revenues	15,206	18,331	20,978	23,518	25,633
EBITDA	1,461	1,713	2,014	2,352	2,563
Adj. PAT	827	942	1,133	1,344	1,461
EPS (Rs)	5.8	6.6	7.9	9.4	10.2
EPS growth (%)	*9.9*	*14.0*	*20.2*	*18.6*	*8.7*
EBITDA margin (%)	*9.6*	*9.3*	*9.6*	*10.0*	*10.0*
P/E (x)	23.6	20.7	17.2	14.5	13.4
P/BV (x)	4.3	3.7	3.2	2.7	2.3
EV/EBITDA (x)	13.4	11.2	9.3	8.0	7.2
RoE (%)	*19.9*	*19.3*	*19.9*	*20.1*	*18.7*
RoCE (%)	*26.1*	*26.8*	*27.5*	*27.6*	*25.6*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

	New estimates			Old estimates			*Change (%)*	
(Rsmn)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	*FY19E*	*FY20E*
Net sales	20,978	23,518	25,633	20,978	23,518	-	-	-
EBITDA	2,014	2,352	2,563	2,014	2,352	-	-	-
EBITDA margin (%)	*9.6*	*10.0*	*10.0*	*9.6*	*10.0*	-	-	-
PAT	1,133	1,344	1,460	1,133	1,344	-	-	-
EPS (Rs)	7.9	9.4	10.2	7.9	9.4	-	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance in 2QFY19

(Rsmn)	Actual performance 2QFY19	Our estimate 2QFY19	*Deviation %*
Net sales	5,415	5,295	*2.3*
EBITDA	515	504	*2.1*
Net profit	289	277	*4.6*

Source: Nirmal Bang Institutional Equities Research

Key takeaways from the post-result conference call

- Automobile industry demand during the first-half of FY19 was healthy and is expected to continue going forward. Growth during the quarter was a result of strong performance across most segments with two-wheeler and commercial vehicle (CV) segments doing well, while passenger vehicle (PV) growth remained flat. PAT growth was supported by a better control over expenditure. The after-market segment has also done well, and has grown 19% YoY. The company's profitability during the quarter improved because of control over expenses. Reduced research and development-related expenses benefit from 200% to 100% resulted in single-digit PAT growth.

- GIL's growth during 2QFY19 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 over 20% (11% industry growth), three-wheeler segment grew ~35%, passenger vehicle (PV) segment's growth was a negative 4%-5% while the CV segment registered ~45% YoY growth (industry growth 38%). During the quarter, two-wheeler/three-wheeler segments contributed 60% to revenues (56% in FY18), while the PV segment accounted for 26% (31% in FY18). It also recorded 15%-20% growth in railways segment division.

- With the sharp growth in CV segment, the share of CV contribution to sales rose to 14% from 13% in March 2018.

- During the quarter, GIL won orders from Maruti Suzuki India for its refreshed Alto platform as well as an order from Mahindra & Mahindra.

- The company indicated that it is facing commodity price pressure in case of steel, aluminium, rubber and crude oil. Currently, imports constitute ~15% of raw material 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%. OE exports in markets like Columbia have also started looking up relative to the previous quarters.
- GIL witnessed higher demand from OEMs (accounting for 86% of its sales in 1HFY19) during the quarter, relative to the after-market segment. The company has also received a good response for its new non-suspension/shock absorber products.
- Capital expenditure in FY19 is expected to be over Rs1,500mn which will be funded from internal accruals, of which Rs250mn has been spent in 1HFY19. Capacity utilisation in two-wheeler and CV segments is close to 90%, while that in PV space it is in the range of 65%-70%.
- Higher other expenses reflect a rise in management fees to 2% from 1.5% and increase in other variable expenses. The company's top five customers contributed 40%-45% to its revenues.

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)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	**15,206**	**18,331**	**20,978**	**23,518**	**25,633**
% growth	*5.7*	*20.6*	*14.4*	*12.1*	*9.0*
Raw material expenses	10,847	13,106	14,936	16,651	18,148
Staff costs	1,112	1,377	1,552	1,740	1,897
Other expenses	1,785	2,136	2,475	2,775	3,025
Total expenditure	13,745	16,619	18,964	21,166	23,070
EBITDA	**1,461**	**1,713**	**2,014**	**2,352**	**2,563**
% growth	*13.0*	*17.2*	*17.6*	*16.8*	*9.0*
EBITDA margin (%)	***9.6***	***9.3***	***9.6***	***10.0***	***10.0***
Other income	58	71	82	95	108
Interest costs	39	29	24	22	20
Gross profit	4,358	5,225	6,042	6,867	7,485
% growth	*5.9*	*19.9*	*15.6*	*13.7*	*9.0*
Depreciation	353	383	421	486	544
Profit before tax	1,128	1,372	1,650	1,939	2,107
% growth	*18.1*	*21.6*	*20.3*	*17.5*	*8.7*
Tax	301	429	517	595	647
Effective tax rate (%)	*26.7*	*31.3*	*31.4*	*30.7*	*30.7*
Net profit	**827**	**942**	**1,133**	**1,344**	**1,461**
% growth	*9.9*	*14.0*	*20.2*	*18.6*	*8.7*
EPS (Rs)	**5.8**	**6.6**	**7.9**	**9.4**	**10.2**
% growth	*9.9*	*14.0*	*20.2*	*18.6*	*8.7*
DPS (Rs)	1.2	1.3	1.4	1.5	1.6
Payout (%)	*22.1*	*26.3*	*26.8*	*27.1*	*27.2*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	1,166	1,401	1,674	1,961	2,127
(Inc.)/dec. in working capital	115	(218)	(406)	(217)	(170)
Cash flow from operations	1,281	1,183	1,268	1,745	1,957
Other income	(31)	(86)	(23)	(36)	(49)
Depreciation	353	383	421	486	544
Tax paid	(245)	(442)	(517)	(595)	(647)
Net cash from operations	**1,359**	**1,037**	**1,149**	**1,599**	**1,806**
Capital expenditure	(517)	(460)	(1,600)	(700)	(700)
Net cash after capex	842	578	(451)	899	1,106
Other investment activity	(709)	(175)	(1,807)	(574)	(561)
Cash from financial activity	(445)	(262)	2,273	(308)	(528)
Increase/(decrease) in loans	(199)	(3)	(20)	-	-
Other financing activities	(246)	(259)	2,293	(308)	(528)
Opening cash balance	351	39	179	194	212
Closing cash balance	39	179	194*	212*	229*
Change in cash balance	(312)	140	15	18	17

**Other bank balances*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Equity	144	144	144	144	144
Reserves	4,358	5,105	6,000	7,076	8,269
Net worth	4,502	5,249	6,144	7,220	8,412
Net deferred tax liabilities	141	198	198	198	198
LT liabilities/provisions	97	117	117	117	117
Total loans	82	104	84	84	84
Liabilities	**4,822**	**5,668**	**6,543**	**7,619**	**8,812**
Gross block	3,218	3,538	5,138	5,838	6,538
Depreciation	336	574	3,996	4,482	5,026
Net block	2,882	2,965	1,143	1,356	1,512
Capital work-in-progress	18	78	78	78	78
Long-term investments	4	23	173	323	473
Other long-term assets	698	351	351	351	351
Inventories	1,312	1,491	1,604	1,798	1,960
Debtors	2,118	2,792	2,809	3,149	3,432
Current investments	283	623	2,333	2,822	3,311
Cash	52	400	831	837	1,065
Cash and cash equivalents	40	180	195	212	229
Other bank balance	13	220	636	626	837
Other current assets	321	287	287	287	287
Total current assets	4,087	5,592	7,863	8,893	10,055
Trade payables	2,147	2,650	2,737	3,055	3,330
Other current liabilities/provisions	719	689	327	327	327
Total current liabilities	2,866	3,340	3,064	3,382	3,657
Net current assets	1,221	2,252	4,799	5,511	6,398
Total assets	**4,822**	**5,668**	**6,543**	**7,619**	**8,812**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

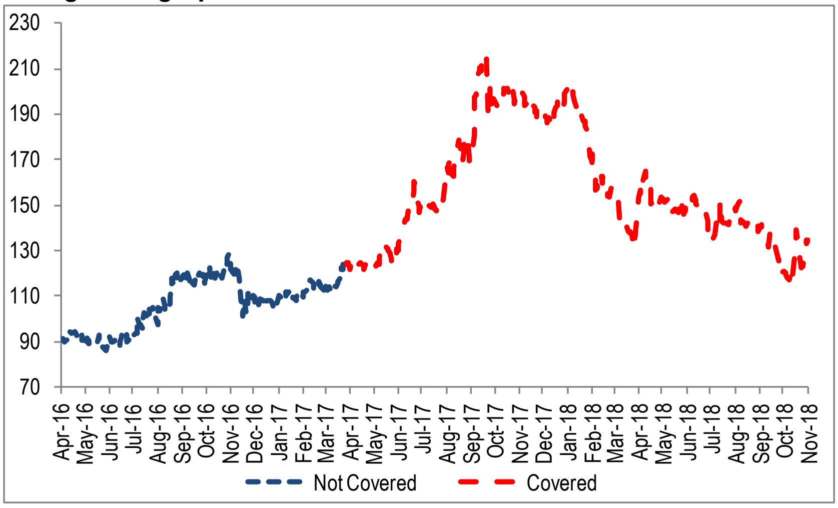
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Profitability & return ratios					
EBITDA margin (%)	9.6	9.3	9.6	10.0	10.0
EBIT margin (%)	7.3	7.3	7.6	7.9	7.9
Net profit margin (%)	5.4	5.1	5.4	5.7	5.7
RoE (%)	19.9	19.3	19.9	20.1	18.7
RoCE (%)	26.1	26.8	27.5	27.6	25.6
Working capital & liquidity ratios					
Receivables (days)	49	49	49	49	49
Inventory (days)	29	28	28	28	28
Payables (days)	52	53	53	53	53
Cash conversion cycle (WC days)	25	24	24	24	24
Current ratio (x)	1.4	1.7	2.6	2.6	2.7
Quick ratio (x)	1.0	1.2	2.0	2.1	2.2
Valuation ratios					
EV/Sales (x)	1.3	1.0	0.9	0.8	0.7
EV/EBITDA (x)	13.4	11.2	9.3	8.0	7.2
P/E (x)	23.6	20.7	17.2	14.5	13.4
P/BV (x)	4.3	3.7	3.2	2.7	2.3

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
10 August 2018	Buy	142	196

Rating track graph



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010