

Gabriel India

14 May 2018

Reuters: GABR.NS; Bloomberg: GABR IN

Strong Performance

Gabriel India (GIL) reported a strong performance in 4QFY18 with sales/EBITDA/PAT growing in double digits and beating our estimates. Net sales grew by a strong 28% YoY to Rs5bn, the highest-ever quarterly sales registered by the company. Sales were 7% above our estimate as the company reported strong double-digit growth across two-wheeler, passenger car and commercial vehicle segments. EBITDA margin at 9.3% was slightly better than our estimate and improved 30bps QoQ, but fell 30bps YoY because of lower gross margin. Following strong revenue growth, absolute EBITDA also grew in strong double digits by 23% YoY to Rs464mn, 8% above our estimate. PAT grew by 13% YoY to Rs257mn, 9% above our estimate. GIL, in its conference call, indicated that demand growth across segments was strong and that it expects good volume growth in FY19. The company is focusing on the high-margin after-market segment and has plans to increase the share from this segment which should drive profitability over FY19/FY20. GIL expects some margin pressure in the near term because of higher commodity prices and also due to the increase in basic customs duty on imported components from 10% to 15%. Further, expiry of tax incentives at its Parwanoo plant and reduction in incentive on research and development or R&D will keep the tax rate in excess of 30%. The company also announced a capex of Rs1.6bn in FY19 for: 1) New two-wheeler front fork plant at Sanand to cater to the new Honda Motorcycles and Scooters India or HMSI order (expected investment of Rs460mn). 2) New piston rod facility (expected investment of Rs400mn). 3) New R&D facility for passenger car and commercial vehicle segments (expected investment of Rs115mn). 4) Regular maintenance capex of Rs585mn. Following strong revenue growth for the quarter, we have increased our revenue estimates by 7%/9% for FY19/FY20, respectively, while our earnings estimates stand reduced by 6%/3% for FY19/FY20, respectively, to factor in lower margins, higher depreciation because of increased capex in FY19 and a higher tax rate. We have cut our margin estimates by 80bps and 60bps to factor in the same and now expect margins of 9.6%/10.0% for FY19/FY20, respectively. We have retained our positive outlook on GIL as we believe it is a good play on the domestic automobile industry. The company in FY18 has demonstrated strong growth which has been higher than industry growth in respective segments i.e. two-wheeler, commercial vehicle and passenger vehicle, indicating that GIL is gaining market share and is growing faster than the industry. We expect this momentum to continue over FY19/FY20 and expect the company to report double-digit revenue growth. GIL stock currently trades at 16x FY20E estimates and we believe the risk-reward ratio is extremely favourable at the current level. We have retained our Buy rating on GIL with a revised target price of Rs196 (21x FY20E earnings) versus Rs223 earlier (23x FY20E earnings).

Continues to outgrow the industry: GIL's 4QFY18 revenues at Rs5bn grew by a strong 28%. The company indicated that its growth was across segments with all the segments reporting double-digit volume growth. In the conference call, GIL stated that the vehicle segments to which it is catering have been growing faster than the industry's growth and we expect this growth trend to continue in FY19/FY20.

Outlook and valuation: We continue to like GIL because of its strong balance sheet and robust return ratios. GIL stock currently trades at 16x FY20E estimate and we believe the risk-reward ratio is extremely favourable at the current level. We have retained our Buy rating on GIL with a revised target price of Rs196 (20x FY20E earnings) versus Rs223 earlier (23x FY20E earnings).

BUY

Sector: Auto Ancillary

CMP: Rs146

Target Price: Rs196

Upside: 35%

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Key Data

Current Shares O/S (mn)	143.6
Mkt Cap (Rsbn/US\$m)	21.0/312.0
52 Wk H / L (Rs)	223/123
Daily Vol. (3M NSE Avg.)	142,422

Price Performance (%)

	1 M	6 M	1 Yr
Gabriel India	(7.6)	(25.3)	13.0
Nifty Index	(1.1)	2.3	11.3

Source: Bloomberg

Y/E March (Rsmn)	4QFY17	3QFY18	4QFY18	YoY (%)	QoQ (%)
Revenues	3,882	4,471	4,968	28.0	11.1
Raw material costs	2,745	3,239	3,502	27.6	8.1
Staff costs	295	352	361	22.3	2.4
Other expenses	450	553	598	32.8	8.1
Total expenditure	3,507	4,067	4,504	28.4	10.7
EBITDA	375	403	464	23.5	14.9
EBITDAM (%)	9.7	9.0	9.3	(34bps)	31bps
Depreciation	90	92	107	18.0	15.4
Interest costs	18	5	7	(60.3)	56.1
Other income	20	15	25	22.8	66.6
PBT	287	321	374	30.4	16.5
Tax	61	106	117	93.4	10.6
Net profit	226	215	257	13.5	19.5
NPM (%)	5.8	4.8	5.2	(66bps)	36bps
EPS (Rs)	1.6	1.5	1.8	13.5	19.5

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)	28.9	26.7	23.1	19.2	16.2
P/BV (x)	5.7	4.8	4.1	3.6	3.0
EV/EBITDA (x)	16.6	14.8	12.5	10.5	9.0
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	33.6	36.6	6.8	8.7
Net sales	20,978	23,518	19,653	21,847	6.7	7.6
EBITDA	2,014	2,352	2,044	2,316	(1.5)	1.6
EBITDA margin (%)	9.6	10.0	10.4	10.6	(80bps)	(60bps)
PAT	1,133	1,344	1,211	1,392	(6.4)	(3.5)
EPS (Rs)	7.9	9.4	8.4	9.7	(6.4)	(3.5)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Deviation of our estimates from actual performance in 4QFY18

(Rsmn)	Actual performance 4QFY18	Our estimate 4QFY18	Deviation %
Net sales	4,968	4,654	6.7
EBITDA	464	428	8.3
Net profit	257	236	8.9

Source: Nirmal Bang Institutional Equities Research

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	-	-	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

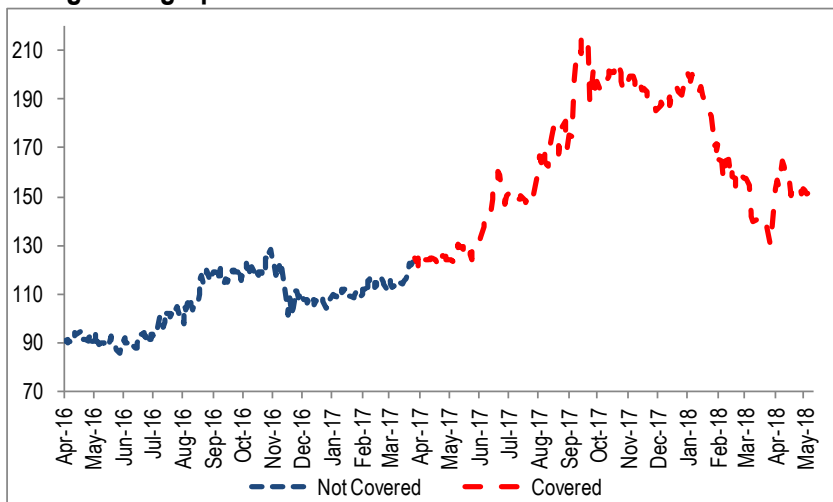
Y/E March	FY16	FY17	FY18	FY19E	FY20E
Profitability & return ratios					
EBITDA margin (%)	9.0	9.4	9.3	9.6	10.0
EBIT margin (%)	6.7	7.1	7.3	7.5	7.9
Net profit margin (%)	5.2	5.3	5.1	5.4	5.7
RoE (%)	21.3	19.6	19.3	20.0	20.3
RoCE (%)	26.4	25.6	26.8	27.4	27.9
Working capital & liquidity ratios					
Receivables (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)	1.5	1.4	1.2	1.0	0.9
EV/EBITDA (x)	16.6	14.8	12.5	10.7	9.2
P/E (x)	28.9	26.7	23.1	19.2	16.2
P/BV (x)	5.7	4.8	4.1	3.6	3.0

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

Rating track graph



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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