

CMP: INR 433

Rating: Buy

Target Price: INR 524

Stock Info

BSE	505714
NSE	GABRIEL
Bloomberg	GRV IN
Reuters	GRVL.BO
Sector	Automotive Industry
Face Value (INR)	1
Equity Capital (INR Mn)	144
Mkt Cap (INR Mn)	55,732
52w H/L (INR)	559/272
Avg Yearly Vol (in 000')	725

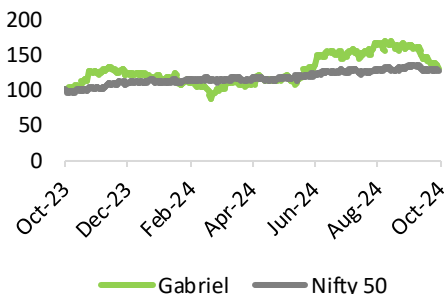
Shareholding Pattern %

(Ason Sept 2024)

Promoters	55.00
FII	5.50
DII	12.88
Public & Others	26.60

Stock Performance (%)	1m	3m	12m
Gabriel	-21.0	-12.4	28.5
Nifty 50	-5.7	-0.03	26.9

Gabriel Vs Nifty 50



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Gabriel India Ltd reported its Q2FY25 numbers, with revenue at INR 10,271 Mn (up by 8.51% YoY and 18.81% QoQ), above our estimates of INR 9,663 Mn. Gross profit for the quarter was INR 2,668 Mn, showing a 9.27% YoY increase and an 24.77% QoQ rise, above our estimate of INR 2,432 Mn. Gross margins expanded by 18.17 bps YoY to 26.0%, registering 124.04 bps QoQ growth, above our estimate of 25.2%. EBITDA for the quarter was INR 987 Mn, marking an 8.79% YoY increase and a 33.71% QoQ rise, above our estimate of INR 889 Mn. EBITDA margin increased by 2.52 bps YoY to 9.6%, an increase of 107.04 bps QoQ, and above our estimate of 9.2%. PAT for the quarter was INR 629 Mn, up by 9.25% YoY and 35.47% QoQ, above our estimate of INR 557 Mn. The PAT margin increased by 5.4 bps YoY and 75.30 bps QoQ to 6.13% in Q1FY25, compared to 6.08% in Q1FY25. The company has declared an interim dividend of INR 1.75 per share for the period ended September 30, 2024, with the record date set for October 30, 2024.

Investment rationale

Strong EV growth: Gabriel is optimistic about EV growth, as India already has 500,000 electric vehicles on the road, primarily driven by government initiatives. The company believes this will further boost the 2W segment in the coming quarters. The development of an EV platform is underway, with updates to be shared in Q3. The Creta EV is one of the key models that will drive future growth

Increasing Sunroof penetration and SUV market growth: Gabriel currently produces 1.5 lakh sunroof units and plans to add an additional 1.5 lakh units in the next phase. The domestic sunroof industry produces 900,000 to 1.2 million units, with an equal split between imports and local production. Gabriel expects domestic production to rise to 80% in the future. With the increasing popularity of SUVs and more launches from manufacturers like Tata and Mahindra, Gabriel anticipates significant growth in sunroof demand, forecasting 50-60% penetration in SUVs and 25% in hatchbacks by 2030, based on an auto production base of 6.5 mn units.

Optimistic outlook in CV and PV: In the PV segment, Gabriel holds a 90% market share domestically, aligning its performance with market trends. Despite a weaker H1 in the CV segment, the company expects stronger growth in H2, with a focus on expanding exports. Gabriel is also exploring new product opportunities within the CV segment, including platforms with Mahindra and Tata Motors.

Continued product innovation: Gabriel is seeing growing interest in inverted front forks and monoshocks, which are contributing to increased content per vehicle. There is also a continued shift from conventional front forks to advanced designs, enhancing Gabriel's position in the 2W.

Outlook & Valuation

Demand outlook remains optimistic, supported by the festive season and a better-than-expected monsoon season which will likely stimulate demand in the scooter and rural segments. Management reiterated their goal of achieving double-digit margins in the standalone business by 2026. The core-90 initiative, which focuses on cost control and income generation, has shown progress, with margins improving from 7.1% to 8.5-9%. In sunroof business, the company expects to achieve revenue of INR 4,000 Mn in FY25. Long-term target is to achieve INR 8,000-10,000 Mn in the next five years. **We expect Gabriel's revenue, EBITDA, and PAT to grow at a CAGR of 16.4%, 21.6%, and 20.2%, respectively, over FY24-FY27E. We used DCF model to arrive at a target price of INR 524 per share. Accordingly, we maintain our 'BUY' rating on the stock.**

Exhibit 1: Financial Performance

YE March (INR Mn)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin (%)	EV/EBITDA	P/E (x)
FY23	29,718	2,137	1,306	9.1	7.2	28.6	47.6
FY24	34,026	2,931	1,787	12.4	8.6	21.1	34.8
FY25E	40,957	3,926	2,492	17.4	9.6	15.8	25.0
FY26E	47,545	4,771	3,009	21.0	10.0	12.9	20.7
FY27E	55,486	5,808	3,602	25.08	10.5	10.6	17.3

Source: Arihant Research, Company Filings

Exhibit 2: Quarterly Result

INR Mn (Consolidated)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Net Sales	10271	9466	8644	8.5%	18.8%
Material Cost	7795	6872	6603	13.4%	18.1%
Change in Inventory	-192	152	-97	-226.2%	98.7%
Gross Profit	2668	2441	2138	9.3%	24.8%
Gross Margin %	26%	26%	25%	18.17	124.04
Personnel	644	602	542	7.0%	18.9%
Manufacturing & Other Expenses	1036	932	858	11.2%	20.8%
EBITDA	987	907	738	8.8%	33.7%
EBITDA margin %	9.61%	9.59%	8.54%	2.52	107.04
Depreciation	194	188	141	3.2%	37.0%
EBIT	793	720	597	10.2%	32.9%
EBIT Margin %	7.72%	7.60%	6.90%	12.19	82.02
Interest Expenses	20	22	21	-11.9%	-6.9%
Non-operating income	48	63	46	-23.5%	5.1%
PBT	822	760	622	8.1%	32.2%
Tax-Total	193	184	157	4.5%	22.7%
Tax Rate (%) - Total	0.26	0.26	25.28	0.0%	-99.0%
Reported Net Profit	629	576	464	9.2%	35.5%
PAT Margin %	6.13%	6.08%	5.37%	4.15	75.30
Reported EPS (INR)	4.38	4.01	3.23	9.2%	35.5%

Source: Arianth Research, Company Filings

Exhibit 3: Revenue mix

Segment wise Revenue	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
2W/3W	6,676	5,963	5,273	11.95%	26.61%
PV	2,362	2,272	2,161	3.98%	9.31%
CVR	1,027	1,041	1037	-1.36%	-0.99%
Trading	205	189	173	8.51%	18.81%
Channel wise revenue	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
OE	9,038	8,235	6,688	9.75%	35.15%
Replacement	1,027	1,041	1,047	-1.36%	-1.95%
Exports	205	189	322	8.51%	-36.27%
Aftermarket revenue	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
2W/3W	4,519	4,165	3,631	8.51%	24.47%
PC	3,492	3,408	3,112	2.48%	12.21%
CVR	1,027	757	778	35.63%	32.02%
Trading	1,233	1,136	1,124	8.51%	9.67%

Source: Arianth Research, Company Filings

Gabriel India Ltd Q2FY25 Concall KTAs**Financials**

- Operating revenue increased by 6.9% YoY to INR 9,240 Mn in Q2FY25, primarily driven by growth in 2W and EV 2W sales. EBITDA margins remained stable at 8.7% in Q2FY25.
- The company's standalone business currently operates at 8.5-9% margins, with an aim to reach double-digit margins by 2026.

Segment performance

2W and 3W segment showed strong growth of 13.1% YoY. Scooters led with 16.7% growth, followed by motorcycles and mopeds growing at 11.3% and 17.9% respectively. Commercial vehicle sector experienced a YoY degrowth of 9.2%, though exports in CV sector grew by 16%. The pre-rural segment achieved sales of 2.9 lakh units, representing a 4.7% YoY increase.

Sunroof business (Gabriel sunroof)

- Currently producing 10,000-12,000 sunroof units per month. Operating at 60% localization currently, with plans to reduce import content to 40%. Current manufacturing line has capacity of 150,000-180,000 units, with plans to add similar capacity in phase two.
- Maintains healthy margins of 18% in recent quarters, though management guides for sustainable margins of 12-14%.
- Currently supplying to Hyundai Creta and Alcazar models, with upcoming program for Kia. Won first export order, though volume is small.
- The company expects to achieve revenue of INR 4,000 Mn this year in sunroof business. Long-term target is to achieve INR 8,000-10,000 Mn in the next five years. Tax rate for sunroof business is 15% due to tax benefits.
- By 2030, with assumed total auto industry production of 6.5 million units the management expects 50-60% sunroof penetration in SUV segment and around 25% penetration in hatchback and other segments.
- Pays 5% total royalty, split between Inalfa and Gabriel Sunroof.

EV business

EV segment contributes 2-3% to total revenue. India has reached 500,000 EVs in the current timeframe. The company sees strong growth potential in this segment driven by government initiatives.

Market outlook

The PV segment showed mixed demand patterns, with utility vehicles growing 12.3% due to strong SUV preference. The commercial vehicle segment faced challenges due to extended monsoon delays and reduced infrastructure spending. Management is optimistic about H2FY25 performance, due to the upcoming festive season. Rural market shows positive trends with better agricultural conditions following good monsoon.

Railway business

Received LOI from Siemens for eLoco. Currently mapping potential market size outside the country

Product development

Development of new products like Front Suspension Damper (FSD) with ongoing proof of concept discussions with potential customers. Swift platform is in development stage, still away from SOP.

Export

Seeing better performance in Latin America business with GDC. Improved numbers from DAF in Europe. Focus on expanding export portfolio beyond current offerings both in OE and aftermarket segments. Particularly focusing on commercial vehicle exports due to limited domestic market share growth potential.

Cost management

Implementing Core-90 program for cost optimization. Program covers all aspects of income statement and balance sheet. Seeing stable performance improvement from 7.1-7.2% range to 8.1-9% range. Recent quarter saw increased employee costs due to wage revisions and additional workforce requirements

Other highlights

The company is looking at expansion in inverted front forks, monoshocks, and gas canisters. Moving away from conventional front forks to bigger front forks in some programs.

Working on new platforms with Mahindra UPP and several Tata Motors projects.

Commodity price changes have minimal impact (0.1-0.2%) due to back-to-back arrangements with 95-98% pass-through.

Story in charts

Exhibit 4: Revenue increased by 18.8% YoY and 8.5% QoQ basis

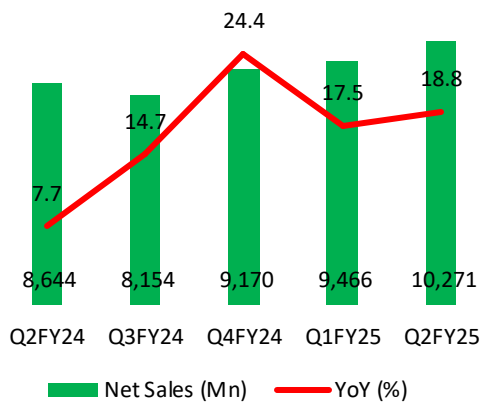


Exhibit 5: EBITDA Margins saw marginal increase due to ongoing cost reductions.

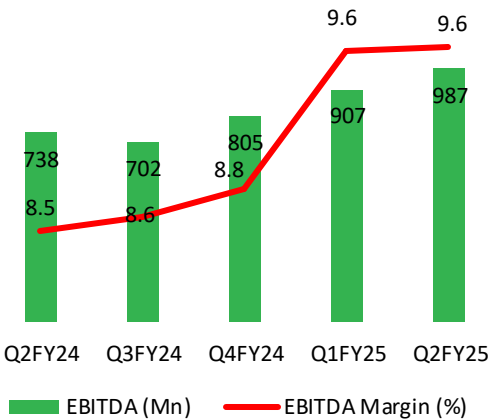


Exhibit 6 : Net Profit Margin slightly improved

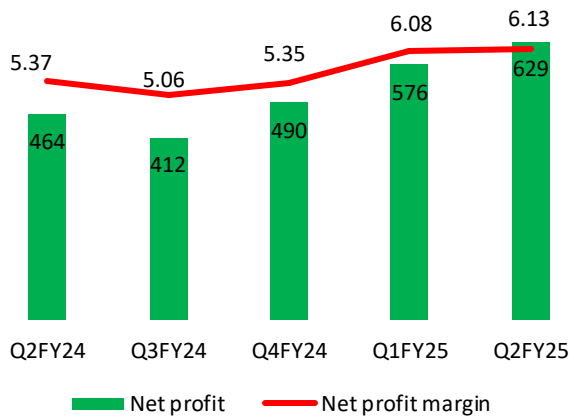


Exhibit 7: EPS saw an improvement during the Q2FY25

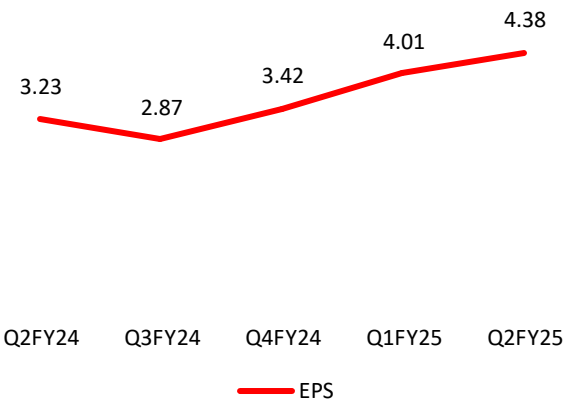
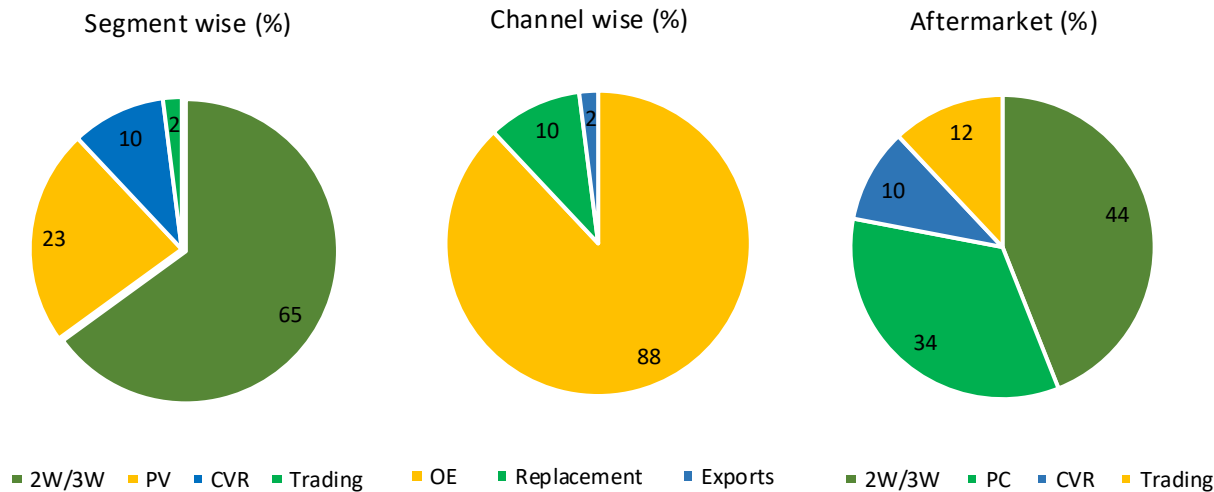


Exhibit 8: Diversified products segments with strong traction in 3W/2W segment and market share expansion



Source: Arihant Research, Company Filings

DCF Valuation

Valuation Assumptions

g (World Economic Growth)	3%
Rf	7%
Rm	12%
Beta (2 Yr)	1.0
CMP (INR)	433

WACC

We	99.8%
Wd	0.2%
Ke	12.2%
Kd	5.7%
WACC	12.19%

Valuation Data

Total Debt (long term borrowings) (2023)	111
Cash & Cash Equivalents (2023)	1,075
Number of Diluted Shares (2023)	144
Tax Rate (2024)	25.0%
Interest Expense Rate (2024)	7.6%

MV of Equity	73,400
Total Debt	111
Total Capital	73,511

FCFF & Target Price												
FCFF & Target Price	Explicit Forecast Period						Linear Decline Phase					Terminal Yr
Year	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
EBIT * (1-Tax Rate)	2,386	2,921	3,585	4,312	5,080	5,859	6,613	7,301	7,880	8,311	8,560	8,817
Dep	744	877	1,028	1,522	1,522	1,755	1,981	2,187	2,361	2,490	2,564	2,641
Purchase of Assets	1,515	1,664	1,887	2,488	2,833	3,244	3,721	4,074	4,398	4,651	4,782	4,927
Changes in Working Capital	(1,688)	(1,437)	(2,129)	(2,578)	(3,037)	(3,502)	(3,953)	(4,364)	(4,711)	(4,968)	(5,117)	(5,271)
FCFF	3,303	3,571	4,856	5,923	6,805	7,873	8,825	9,778	10,553	11,118	11,460	11,802
% Growth in Post Tax EBIT		22.4%	22.7%	20.3%	17.8%	15.3%	12.9%	10.4%	7.9%	5.5%	3.0%	3.0%
As % of Post Tax EBIT												
Dep	31.2%	30.0%	28.7%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Purchase of Assets	63.5%	57.0%	52.6%	57.7%	55.8%	55.4%	56.3%	55.8%	55.8%	56.0%	55.9%	55.9%
Changes in Working Capital	-70.7%	-49.2%	-59.4%	-59.8%	-59.8%	-59.8%	-59.8%	-59.8%	-59.8%	-59.8%	-59.8%	-59.8%
FCFF	3,303	3,571	4,856	5,923	6,805	7,873	8,825	9,778	10,553	11,118	11,460	11,802
Terminal Value												128448
Total Cash Flow	3,303	3,571	4,856	5,923	6,805	7,873	8,825	9,778	10,553	11,118	11,460	1,40,250

Enterprise Value (EV)	74,361
Less: Debt	111
Add: Cash	1,075
Equity Value	75,325

Equity Value per share (INR)	524
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% Returns	21.1%
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Rating	BUY
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WACC (%)

	Terminal Growth(%)								
524	2.00%	2.25%	2.50%	2.75%	3.00%	3.25%	3.50%	3.75%	4.00%
11.19%	550	561	573	585	598	612	627	642	659
11.44%	533	544	555	566	578	591	604	619	634
11.69%	517	527	537	548	559	571	584	597	611
11.94%	502	511	521	531	541	552	564	576	590
12.19%	488	496	505	514	524	535	546	557	569
12.44%	474	482	490	499	508	518	528	539	550
12.69%	461	468	476	485	493	502	512	522	533
12.94%	449	456	463	471	479	487	496	506	516
13.19%	437	443	450	458	465	473	482	491	500

Source: Company reports, Arihant Capital Research, Figures are in INR Mn. except share price and percentage data

Income statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	29,718	34,026	40,957	47,545	55,486
YoY (%)	27.3	14.5	20.4	16.1	16.7
Adjusted RMC	22,688	25,518	30,417	35,205	40,963
YoY (%)	27.0	12.5	19.2	15.7	16.4
Personnel/ Employee benefit expenses	1,831	2,123	2,552	2,896	3,350
YoY (%)	14.7	16.0	20.2	13.5	15.7
Manufacturing & Other Expenses	3,061	3,455	4,062	4,673	5,366
YoY (%)	27.6	12.8	17.6	15.0	14.8
Total Expenditure	27,580	31,096	37,031	42,773	49,678
YoY (%)	26.2	12.7	19.1	15.5	16.1
EBITDA	2,137	2,931	3,926	4,771	5,808
YoY (%)	44.7	37.1	34.0	21.5	21.7
EBITDA Margin (%)	7.2	8.6	9.6	10.0	10.5
Depreciation	510	599	744	877	1,028
% of Gross Block	7.8%	7.7%	8.0%	8.0%	14.3%
EBIT	1,627	2,331	3,182	3,894	4,780
EBIT Margin (%)	5.5	6.9	7.8	8.2	8.6
Interest Expenses	46	82	91	95	100
Non-operating/ Other income	173	190	231	268	187
PBT	1,754	2,438	3,322	4,067	4,867
Tax-Total	448	651	829	1,057	1,265
Adj. Net Profit	1,306	1,787	2,492	3,009	3,602
PAT Margin	4.4	5.3	6.1	6.3	6.5
Shares o/s/ paid up equity sh capital	143.6	143.6	143.6	143.6	143.6
Adj EPS	9.1	12.4	17.4	21.0	25.1

Cash Flow Statement (INR Mn)					
Year End-March	FY23	FY24	FY25E	FY26E	FY27E
Retained Earning	1,069	1,334	1,944	2,347	2,809
Adjustments: Add					
Depreciation and amortisation	510	599	744	877	1,028
Interest adjustment	(127)	(107)	(140)	(172)	(87)
Change in assets and liabilities	1,453	1,826	2,548	3,052	3,750
Inventories	(148)	(767)	(393)	(501)	(462)
Trade receivables	(13)	(1,077)	(704)	(892)	(951)
Trade payables	(327)	1,473	475	935	836
Other Liabilities and provisions	14	109	(77)	15	16
Other Assets	341	(442)	(1,048)	(1,051)	(1,633)
Taxes	38	(42)	9	(3)	(8)
Net cash from operating activities	1,357	1,333	860	1,615	1,621
Net Sale/(Purchase) of tangible and intangible assets, Capital work in progress	(964)	(2,036)	(1,671)	(1,848)	(2,105)
Net Sale/(Purchase) of investments	(48)	2	(51)	(77)	(83)
Others	252	106	210	245	163
Net cash (used) in investing activities	(759)	(1,928)	(1,512)	(1,680)	(2,026)
Interest expense	(260)	(86)	80	113	62
Other financing activities	(46)	(82)	(91)	(95)	(99)
Net cash (used) in financing activities	(69)	285	538	680	756
Closing Balance	1,075	765	650	1,265	1,616

Balance sheet (INR Mn)					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Sources of Funds					
Equity Share Capital	144	144	144	144	144
Reserves & Surplus/ Other Equity	8,559	9,878	12,370	15,380	18,981
Networth	8,703	10,022	12,514	15,523	19,125
Unsecured Loans/ Borrowings/ Lease Liabilities	94	452	543	651	716
Total Debt	94	452	543	651	716
Total Liabilities	14,280	17,795	20,828	24,963	29,549
Application of Funds					
Gross block	4,258	5,598	6,490	7,436	8,471
Net Fixed Assets	4,258	5,598	6,490	7,436	8,471
Capital WIP	296	392	470	564	677
Investments/ Notes/ Fair value measurement	303	405	437	473	515
Current assets	9,423	11,401	13,431	16,491	19,887
Inventory	2,248	3,015	3,408	3,910	4,372
Debtors	3,837	4,914	5,619	6,511	7,462
Other Current Assets	2,259	2,701	3,750	4,800	6,433
Bank	676	165	141	274	349
Cash	398	599	510	992	1,266
Current Liabilities/Provisions	5,193	7,050	7,487	8,507	9,428
Creditors / Trade Payables	4,405	5,877	6,352	7,287	8,123
Liabilities	585	722	645	660	675
Provisions	204	197	186	196	193
Net Core Working Capital	4,230	4,350	5,944	7,984	10,459
Net Current Assets	9,423	11,401	13,431	16,491	19,887
Total Asset	14,280	17,795	20,828	24,963	29,549
Total Capital Employed	4,857	6,394	7,397	8,472	9,662

Key Ratios					
Year-end March	FY23	FY24	FY25E	FY26E	FY27E
Solvency Ratios					
Debt / Equity	0.01	0.05	0.04	0.04	0.04
Net Debt / Equity	-0.11	-0.03	0.00	-0.04	-0.04
Debt / EBITDA	0.04	0.15	0.14	0.14	0.12
DuPont Analysis					
Sales/Assets	2.08	1.91	1.97	1.90	1.88
Assets/Equity	1.64	1.78	1.66	1.61	1.55
RoE	15.01%	17.84%	19.92%	19.39%	18.83%
Per share ratios					
Reported EPS	9.10	12.44	17.35	20.95	25.08
Dividend per share	1.65	3.16	3.82	4.61	5.52
BV per share	60.59	69.77	87.12	108.07	133.15
Profitability ratios					
Net Profit Margin (PAT/Net sales)	4.40	5.25	6.09	6.33	6.49
Gross Profit / Net Sales	23.66	25.01	25.73	25.95	26.17
EBITDA / Net Sales	7.19	8.61	9.58	10.04	10.47
PAT / Net Sales	4.40	5.25	6.09	6.33	6.49
ROCE (%)	17.90%	21.69%	23.85%	23.66%	23.76%
Activity ratios					
Inventory Days	34.97	37.64	40.90	40.53	38.95
Debtor Days	47.05	46.94	50.07	49.99	49.09
Creditor Days	73.01	71.39	75.26	74.49	71.57
Valuation ratios					
EV / EBITDA	28.65	21.13	15.83	12.92	10.56
EV / EBIT	37.64	26.57	19.53	15.82	12.83
EV / Net Sales	2.06	1.82	1.52	1.30	1.11
PE (x)	47.6	34.8	25.0	20.7	17.3

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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