December 22, 2015

Gabriel India

Shocks absorbed; smooth ride ahead

Gabriel India Ltd (Gabriel) is one of the leading manufacturers of ride control products viz shock absorbers, front forks and struts across automotive segments. It commands a market share of 25% in both two-wheelers and passenger vehicles and is the market leader in commercial vehicles segment with a 75% market share.

Recovery in two-wheelers bodes well for Gabriel

The two-wheeler industry, which contributes ~52% of Gabriel's revenues, is poised to recover (we expect 7% CAGR growth over next two years on account of acceleration in urban markets (60% of 2W demand) due to better economic growth and further easing of interest rates. Also, the implementation of the Seventh Commission would result in ~23% pay hike for about 5mn central government employees & the expected subsequent hikes for 12 mn state government employees would aid demand recovery. (Implementation of Sixth pay commission in FY09 had contributed to 25% growth both in FY10 and FY11).

Gabriel to outpace 2W industry on market share gains by key clients

Gabriel is likely to outpace the two-wheeler industry growth on back of market share gains of its key clients viz Honda India, TVS Motors and Royal Enfield (which form 75% of 2W revenues) due to expansion of their distribution reach, new products and increased proportion of fast growing scooters. GIL is likely to register 9-10% growth in 2W as against industry growth of 7%

Healthy growth in PV and CV segment to boost revenues

We expect PV segment (27% of revenues) to grow a healthy 8% due to better OEM industry growth and entry into new platforms. CV OEM segment (9% of revenues) is expected to grow 15% over next two years due to higher freight availability.

Aftermarket and export segments to be key growth drivers

Increased shift towards branded product and new product introduction coupled with GIL strategy to initiate supplies to OEM's overseas arms and taping aftermarket exports would result in 15% CAGR for both aftermarket and exports over next two years.

Outlook and valuation: Two-wheeler recovery coupled with market share gains, healthy growth in passenger vehicle segment, increased focus on aftermarket and exports are likely to lead to a 10% CAGR in revenue for Gabriel over FY2016-2018 period. **Gabriel's margins are also expected to improve by 60bp in the next two years on back of operating leverage and cost control measures, resulting into 17% earnings CAGR over the next two years. GIL is a quality ancillary company with bright earnings growth, healthy return ratios and attractive valuations. We initiate coverage on Gabriel with Buy rating and target price of ₹101 (based on 16x FY2018E earnings).**

Key financials

Y/E March (₹ cr)	FY2015	FY2016E	FY2017E	FY2018E
Net sales	1,444	1,415	1,544	1,715
% chg	*12.2*	*(2.0)*	*9.1*	*11.1*
Net profit (Adj.)	61	66	78	90
% chg	*29.5*	*9.1*	*17.4*	*16.6*
EBITDA margin (%)	8.1	8.7	9.0	9.3
EPS (₹)	4.2	4.6	5.4	6.3
P/E (x)	20.6	18.9	16.1	13.8
P/BV (x)	3.8	3.4	3.0	2.7
RoE (%)	18.6	18.1	18.9	19.5
RoCE (%)	25.5	24.0	24.7	25.5
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBITDA (x)	10.7	9.8	8.4	7.2

Source: Company, Angel Research; CMP as of December 21, 2015

BUY

CMP	₹87
Target Price	₹101
Investment Period	12 Months

Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	1,256
Net Debt (₹ cr)	2
Beta	1.1
52 Week High / Low	107/72
Avg. Daily Volume	36,354
Face Value (₹)	1
BSE Sensex	25,736
Nifty	7,834
Reuters Code	GABR.BO
Bloomberg Code	GABR@IN

Shareholding Pattern (%)	
Promoters	54.6
MF / Banks / Indian FIs	8.4
FII / NRIs / OCBs	10.7
Indian Public / Others	26.3

Abs. (%)	3m	1yr	3yr
Sensex	(1.7)	(6.0)	33.7
Gabriel	1.5	(0.8)	220.9

3-Year Daily price chart

Source: Company, Angel Research

Bharat Gianani
022-39357800 Ext: 6817
bharat.gianani@angelbroking.com

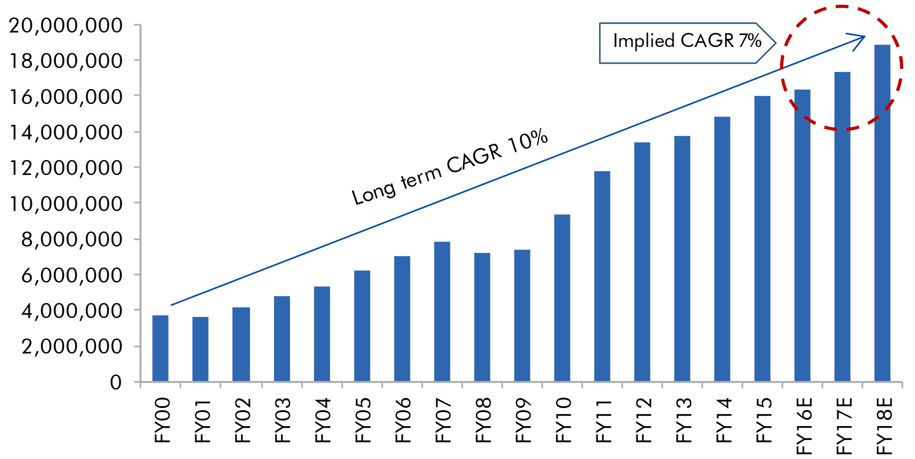
Investment Arguments

Two-wheeler volumes to recover in FY2017

The two-wheeler industry slowed down considerably in the last 4 quarters with the segment reporting flattish volumes. (January 2015-November 2015) volumes grew marginally by 1%. A decline in rural volumes on account of two consecutive years of deficient rainfall led to sluggishness in two-wheeler sales. Rural sales account for ~40% of total two-wheeler volumes and are estimated to have dipped by 3% to 4% during January 2015-November 2015; while urban volumes are expected to have grown by 4% to 5% during the same period.

We expect the two-wheeler industry to return to the growth trajectory in FY2017 and realign with its long term CAGR of ~10%. Acceleration in urban volumes on account of better economic growth, resulting in higher incomes in the hands of consumers, coupled with a further reduction in interest rates, are likely to boost volumes. Further, the implementation of the Seventh Pay Commission (recommending a 23% average salary hike) would result in higher incomes for 5mn government employees and this would act as an important catalyst for growth in two-wheeler demand. Earlier in FY2009, when the Sixth Pay Commission had declared a 35% salary hike, two-wheeler volumes resultantly witnessed buoyancy in FY2010 and FY2011 (volumes grew by 25% in each year). Post the pay hike for central government employees, various state governments (state govt employs about 12 million) also raise salaries, which could further stoke demand. Also, a gradual recovery in rural demand on expectations of a normal monsoon in FY2017 and increase in Minimum Support Prices (MSPs) for agricultural output would also aid recovery, going ahead. Gabriel, which draws 50% of its sales from the 2WOEM segment, is likely to benefit from an expected recovery in the two-wheeler segment.

Exhibit 1: Two-wheeler industry growth trend



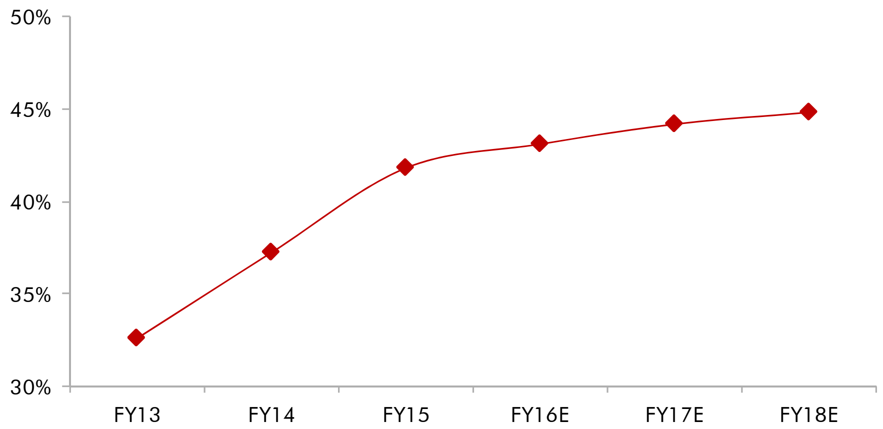
Source:SIAM, Angel Research

Increased sourcing and market share gains of key customers to enable Gabriel outpace two-wheeler industry growth

Gabriel's key customers TVS Motors, Honda Motorcycles and Scooters India (HMSI) and Royal Enfield, which form about 75% of its two-wheeler segment sales and 38% of the overall revenues, are poised to outgrow the two wheeler industry and gain market share. TVS Motors and HMSI are expected to gain market share on the back of new product launches, widening of their distribution reach and higher proportion of the fast growing scooters (scooter constitutes 60% and 35% of HMSI and TVS two wheeler volumes respectively). Further, Royal Enfield is also expected to outpace the industry with a rising trend of leisure biking, a segment where it is the market leader. We expect Gabriel's key customers to gain 100-150bp market share over the next two years, thereby enabling it to outpace the two-wheeler industry growth.

Further, Gabriel is likely to increase sourcing to HMSI. Post the split with the Hero group, HMSI is looking to increasingly source supplies from non-Hero vendors which puts Gabriel in a favorable position. Gabriel is expected to receive increased orders from HMSI's upcoming plant in Gujarat which is likely to commence operations in 4QFY2016. Gabriel's share of business from HMSI currently stands at 35% and is expected to reach 40% levels over the next two years. The above factors are likely to enable Gabriel to report 9-10% growth in the two-wheeler segment in the next two years as against industry growth of about 7%.

Exhibit 2: Two wheeler market share of key customers



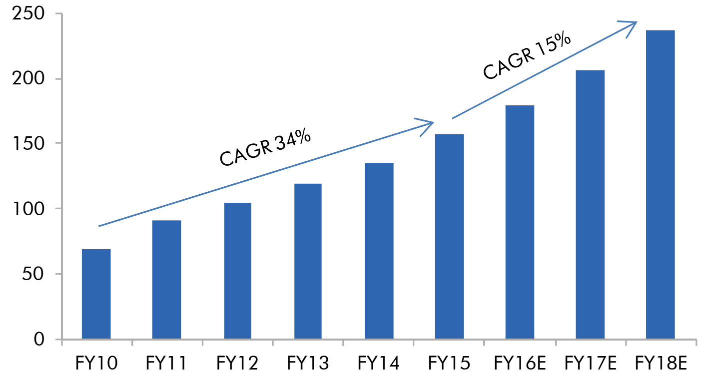
Source: SIAM, Angel Research

Aftermarket and export segment to be the key growth drivers

Gabriel is increasing focus on growing revenues in the aftermarket space. It has been successful in leveraging its brand image and strong relationships with OEMs to increase presence in the aftermarket segment. The company's aftermarket revenues have grown at a CAGR of 18% over the last five years and currently account for 13% of the top-line. The company has recently launched suspension allied products such as front row coils and bush kits which will augment its revenues. Further, the company is also introducing new products, viz wheel rims and coolants, which would further drive its sales in the aftermarket space. Also, increasing preference for branded products is likely to lead to shift from the unorganized segment (unorganized players accounts for about 30%-35% of the overall market) thus benefitting players like Gabriel who already have a large OEM base and strong recall. The company is expecting a healthy double-digit growth in the aftermarket space and is aiming to increase aftermarket revenues from 13% currently to 15% over the next two years.

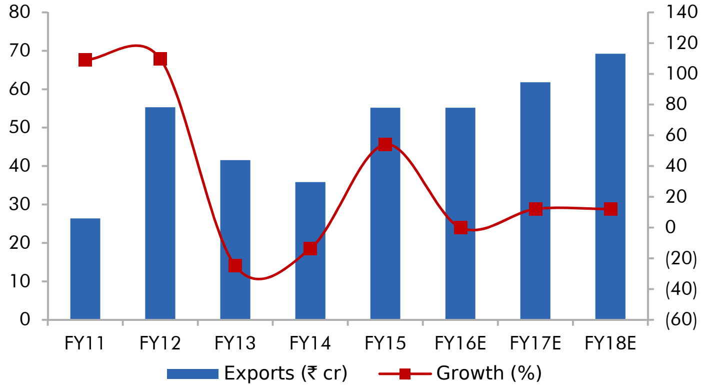
Similarly, Gabriel is focusing on increasing its export revenues by tapping overseas arms of the OEMs to whom it is currently supplying in India. The company has received approval from SML Isuzu and the supplies would commence from 4QFY2016. The company is also tapping the aftermarket segment in the export markets to drive growth. It is aiming to increase export revenues from the current 3% to about 10% over the next two to three years.

Exhibit 3: Aftermarket growth trend



Source: Company, Angel Research

Exhibit 4: Export growth trend



Source: Company, Angel Research

Passenger vehicle business poised for recovery

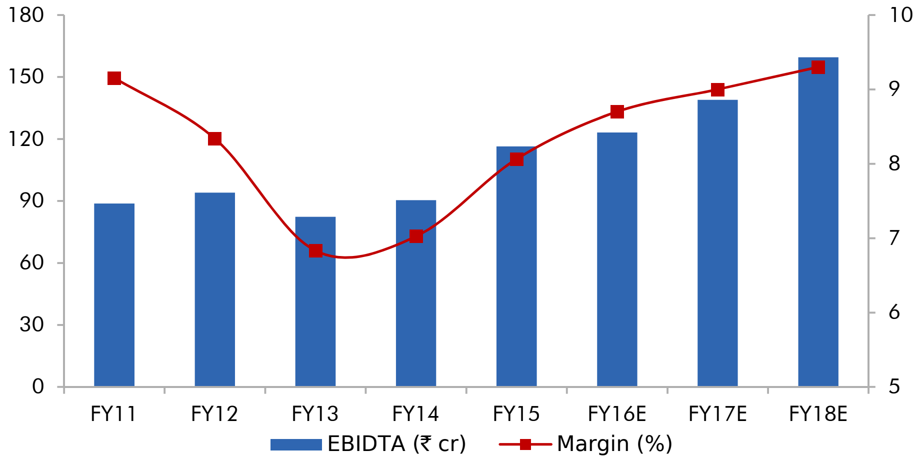
Gabriel's passenger vehicle segment (contributing 27% of the revenues) has been under pressure with the segment's revenues having declined by about 10% in 1HFY2016. This is on account of car platforms of Maruti Suzuki (mini segment) and Tata Motors (older platforms) in which Gabriel is the supplier not performing well. Underperformance of its key customer – Mahindra & Mahindra (M&M) (M&M volumes dipped 8% in 1HFY2016 as against passenger vehicle industry growth of 6%), has also led to decline in the company's passenger vehicle segment revenues.

However, Gabriel has been nominated in new platforms of Maruti (S Cross and an upcoming LCV) and M&M (K1OO compact SUV), which would enable recovery in the passenger vehicle business from FY2017, in our view. Also, Gabriel is in negotiations with Ford, Renault, and General Motors to increase supplies. We believe Gabriel's passenger vehicle segment would grow at a CAGR of 8% over FY2017-18, which would be broadly in line with the passenger vehicle industry growth.

Operating leverage coupled with raw material savings to improve margins

Gabriel's top-line is estimated to post a CAGR of ~10% over FY2017-18. The company is poised to gain benefits of operating leverage on back of healthy top-line growth. Further, Gabriel has embarked upon a programme on reducing raw material expenses where it is focusing on value engineering to bring down the raw material costs. Also, Gabriel is contemplating to procure from new vendors to draw better raw material prices. Softness in raw material prices is expected to continue benefitting the company. We estimate Gabriel's margins to improve by 60bp over the next two years.

Exhibit 5: EBIDTA margin trend

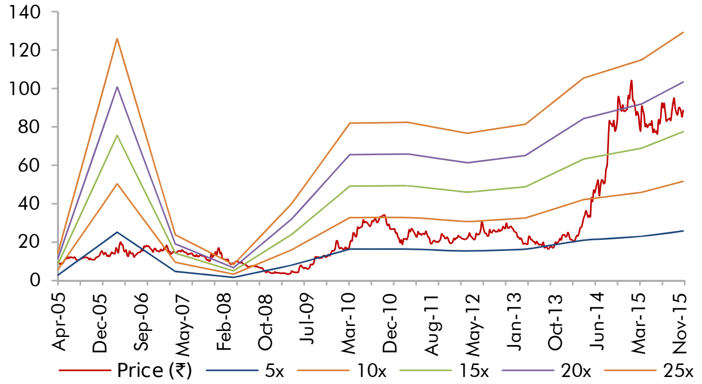


Source: Company, Angel Research

Outlook and Valuation

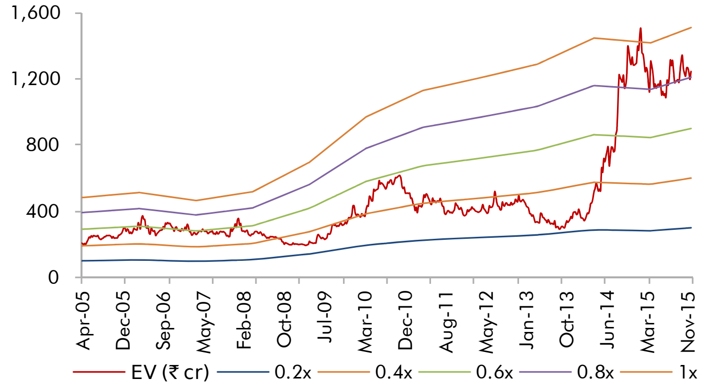
Two-wheeler recovery coupled with market share gains, healthy growth in passenger vehicle segment, increased focus on aftermarket and exports are likely to lead to a 10% CAGR in revenue for Gabriel over FY2016-2018 period. Gabriel's margins are also expected to improve by 60bp in the next two years on back of operating leverage and cost control measures, resulting into 17% earnings CAGR over the next two years. GIL is a quality ancillary company with bright earnings growth, healthy return ratios and attractive valuations. We initiate coverage on Gabriel with Buy rating and target price of ₹101 (based on 16x FY2018E earnings).

Exhibit 6: One year forward P/E Band



Source: Angel Research

Exhibit 7: One year forward EV/Sales Band

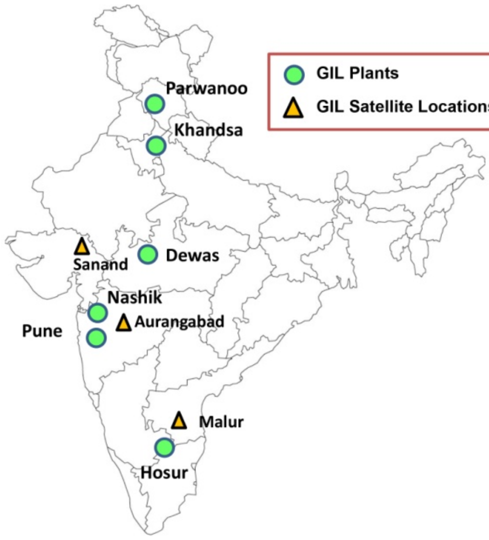


Source: Angel Research

Company Background

Gabriel India Limited (GIL) is the flagship company of ANAND group and a leading name in the Indian Auto Component Industry. Established in 1961, GIL has been the pioneer of ride control products in India. GIL provides the widest range of ride control products including shock absorbers, struts and front forks, across every automotive segment with over 300 product models on offer. GIL has wide manufacturing presence with facilities spread across the country located at Pune, Nashik, Hosur, Dewas, Gurgaon, Parwanoo. It has technological collaboration with KYB Corporation of Japan. KYB is the world leader in supplier of shocks and struts for OEMs and the aftermarket. The company has 32 facilities in 21 countries including 15 manufacturing plants in Asia, the United States, and Europe.

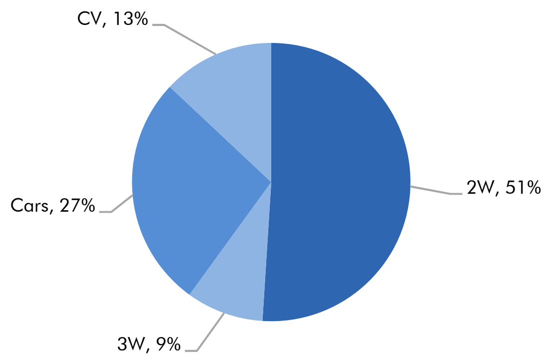
Exhibit 8: Manufacturing footprint



Source: Company, Angel Research

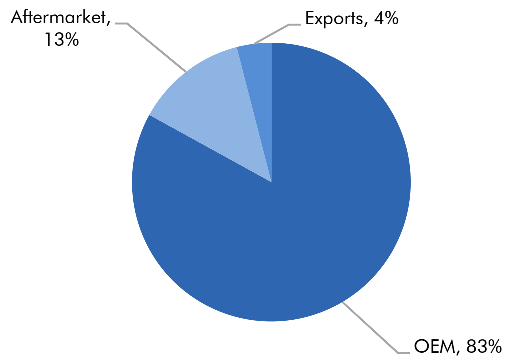
Two-wheelers form the biggest chunk of the company's revenues, contributing half of the top-line. Passenger vehicles is the second largest segment constituting 27% of the revenues. Commercial Vehicles and the three-wheeler segment form 13% and 9% of revenues, respectively. OEMs form the largest customer base forming 83% of the top-line. Aftermarket and exports constitute 13% and 4%, respectively.

Exhibit 9: Segmentwise breakup



Source: Company, Angel Research

Exhibit 10: Customerwise breakup



Source: Company, Angel Research

Exhibit 11: Product and client base

Segment	Products	Customers	Market share
Two wheelers	Front forks, gas and hydraulic shock absorber	TVS Motors, Honda India, Yamaha India, Bajaj Auto, Royal Enfield	25%
Passenger vehicles	Mc Pherson struts, gas shock absorber	Maruti Suzuki, M&M, Toyota India, Hyundai, Volkswagen India, Ford India	25%
Commercial vehicles	Shock absorber, cabin and seat dampers	Tata Motors, Ashok Leyland, VECV, Bharat Benz, Force Motors	75%

Source: Company, Angel Research

Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Total operating income	1,205	1,287	1,444	1,415	1,544	1,715
% chg	*6.8*	*6.7*	*12.2*	*(2.0)*	*9.1*	*11.1*
Total Expenditure	1,123	1,196	1,328	1,292	1,405	1,556
Net Raw Materials	875	928	1,043	1,016	1,106	1,226
Personnel	91	94	108	105	114	127
Other	157	175	177	171	185	202
EBITDA	82	90	116	123	139	160
% chg	*(12.5)*	*9.8*	*28.8*	*5.7*	*12.9*	*14.8*
(% of Net Sales)	*6.8*	*7.0*	*8.1*	*8.7*	*9.0*	*9.3*
Depreciation & Amortisation	27	27	31	33	36	39
EBIT	59	69	90	94	108	126
% chg	*(19.6)*	*16.3*	*30.0*	*4.7*	*14.9*	*16.6*
(% of Net Sales)	*4.9*	*5.4*	*6.2*	*6.6*	*7.0*	*7.3*
Interest & other Charges	12	9	5	2	0	0
Other Income	4	6	4	4	5	5
PBT (recurring)	47	60	84	92	108	126
% chg	*(16.9)*	*27.2*	*40.3*	*9.1*	*17.4*	*16.6*
Extraordinary Expense/(Inc.)	(6)	(4)	(1)	0	0	0
PBT (reported)	41	56	84	92	108	126
Tax	3	13	24	26	30	35
(% of PBT)	*7.4*	*23.6*	*28.2*	*28.0*	*28.0*	*28.0*
PAT (reported)	38	43	60	66	78	90
ADJ. PAT	44	47	61	66	78	90
% chg	*(6.9)*	*6.2*	*29.5*	*9.1*	*17.4*	*16.6*
(% of Net Sales)	*3.7*	*3.6*	*4.2*	*4.7*	*5.0*	*5.3*
Basic EPS (₹)	2.7	3.0	4.2	4.6	5.4	6.3
Fully Diluted EPS (₹)	3.1	3.3	4.2	4.6	5.4	6.3
% chg	*(6.9)*	*6.2*	*29.5*	*9.1*	*17.4*	*16.6*

Balance sheet statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
SOURCES OF FUNDS						
Equity Share Capital	14	14	14	14	14	14
Reserves& Surplus	242	271	311	350	396	449
Shareholders Funds	**257**	**285**	**325**	**364**	**410**	**464**
Total Loans	66	56	6	4	0	0
Deferred Tax Liability	11	10	10	10	10	10
Other long term liab.	4	0	0	0	0	0
Long term provisions	6	4	9	12	15	18
Total Liabilities	**343**	**355**	**351**	**391**	**436**	**492**
APPLICATION OF FUNDS						
Gross Block	459	492	524	555	594	647
Less: Acc. Dep.	204	225	257	290	325	364
Net Block	**255**	**267**	**268**	**265**	**268**	**283**
Capital WIP	6	12	3	0	0	0
Investments	**0**	**0**	**0**	**0**	**0**	**0**
Long Loans and adv.	31	23	23	23	25	27
Current Assets						
Cash	7	5	4	44	76	105
Other	252	278	317	314	343	381
Current liabilities	209	231	265	259	282	312
Net Current Assets	**44**	**47**	**51**	**55**	**61**	**69**
Total Assets	**343**	**355**	**351**	**391**	**436**	**492**

Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Profit before tax	41	56	84	92	108	126
Depreciation	25	21	32	33	36	39
Change in Working Capital	35	(4)	(4)	(4)	(6)	(8)
Others	4	(7)	4	1	1	1
Direct taxes paid	(3)	(13)	(24)	(26)	(30)	(35)
Cash Flow from Operations	102	53	92	97	108	123
(Inc.)/ Dec. in Fixed Assets	(69)	(39)	(23)	(28)	(39)	(53)
(Inc.)/ Dec. in Investments	0	0	0	0	0	0
(Inc.)/ Dec. in Loans & Adv	7	7	1	(0)	(2)	(3)
Cash Flow from Investing	(63)	(31)	(22)	(28)	(41)	(56)
Issue of Equity	7	0	0	0	0	0
Inc./(Dec.) in loans	(25)	(9)	(51)	(2)	(4)	0
Dividend Paid (Incl. Tax)	(11)	(12)	(18)	(27)	(32)	(37)
Others	(9)	(2)	(2)	0	0	0
Cash Flow from Financing	(38)	(24)	(70)	(29)	(36)	(37)
Inc./(Dec.) in Cash	1	(2)	(1)	40	32	29
Opening Cash balances	6	7	5	4	44	76
Closing Cash balances	7	5	4	44	76	105

Key ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Valuation Ratio (x)						
P/E (on FDEPS)	28.4	26.7	20.6	18.9	16.1	13.8
P/CEPS	28.4	26.7	20.6	18.9	16.1	13.8
P/BV	4.9	4.4	3.8	3.4	3.0	2.7
Dividend yield (%)	0.9	1.0	1.4	2.2	2.5	3.0
EV/Sales	1.1	1.0	0.9	0.9	0.8	0.7
EV/EBITDA	15.9	14.4	10.7	9.8	8.4	7.2
EV / Total Assets	3.8	3.7	3.6	3.1	2.7	2.3
Per Share Data (₹)						
EPS (Basic)	3.1	3.3	4.2	4.6	5.4	6.3
EPS (fully diluted)	3.1	3.3	4.2	4.6	5.4	6.3
Cash EPS	5.0	5.1	6.4	6.9	7.9	9.0
DPS	0.7	0.9	1.2	1.9	2.2	2.6
Book Value	17.9	19.9	22.7	25.4	28.6	32.3
Returns (%)						
ROCE (Pre-tax)	17.3	19.4	25.5	24.0	24.7	25.5
Angel ROIC (Pre-tax)	17.7	19.7	25.8	27.0	29.9	32.5
ROE	17.2	16.4	18.6	18.1	18.9	19.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.6	2.6	2.8	2.6	2.6	2.7
Inventory / Sales (days)	33.7	33.1	28.3	29.0	29.0	29.0
Receivables (days)	35.4	38.6	43.6	44.0	44.0	44.0
Payables (days)	63.3	65.5	67.1	66.8	66.6	66.4
WC cycle (ex-cash) (days)	13.2	13.4	13.0	14.2	14.4	14.6
Solvency ratios (x)						
Net debt to equity	0.2	0.2	0.0	(0.1)	(0.2)	(0.2)
Net debt to EBITDA	0.7	0.6	0.0	(0.3)	(0.5)	(0.7)
Interest Coverage (EBIT / Int.)	4.9	7.7	16.4	46.9	NA	NA

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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Disclosure of Interest Statement	**Gabriel India**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*