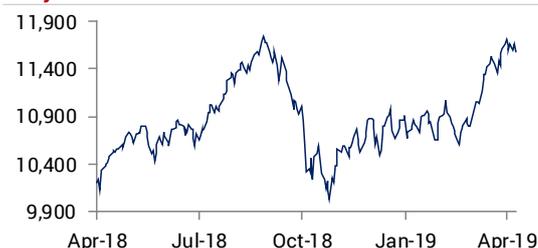


APRIL 11, 2019

	10-Apr	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	38,585	(0.9)	5.2	6.9	
NIFTY Index	11,584	(0.8)	5.0	7.0	
NSEBANK Index	29,804	(1.0)	7.4	8.3	
NIFTY 500 Index	9,623	(0.6)	4.5	5.5	
CNXMcap Index	18,076	(0.3)	4.0	2.2	
BSESMCAP Index	14,969	(0.0)	3.0	2.3	
World Indices					
Dow Jones	26,157	0.0	2.0	9.0	
Nasdaq	7,964	0.7	5.4	14.2	
FTSE	7,422	(0.0)	4.1	7.3	
NIKKEI	21,688	(0.5)	2.4	6.2	
Hangseng	30,120	(0.1)	4.9	12.2	
Shanghai	3,242	0.1	6.5	26.2	
Value traded (Rs cr)					
	10-Apr	% Chg Day			
Cash BSE	2,748	22.1			
Cash NSE	36,843	20.8			
Derivatives	1,159,692	19.0			
Net inflows (Rs cr)					
	9-Apr	MTD	YTD		
FII	1,230	11,010	68,502		
Mutual Fund	(524)	(1,546)	123		
Nifty Gainers & Losers					
	10-Apr	Price (Rs)	Chg (%)	Vol (mn)	
Gainers					
Tata Motors		216	4.9	69.4	
Cipla		546	2.7	6.0	
Wipro		281	2.6	18.5	
Losers					
Bharti Airtel		340	(3.3)	4.3	
Hindalco Ind		212	(2.5)	13.3	
TCS		2,040	(2.5)	3.3	
Advances / Declines (BSE)					
10-Apr	A	B	T	Total	% total
Advances	178	400	55	633	100
Declines	279	547	51	877	139
Unchanged	4	29	13	46	7
Commodity					
	10-Apr	1 Day	1 Mth	3 Mths	% Chg
Crude (US\$/BBL)	71.6	(0.3)	7.5	18.3	
Gold (US\$/OZ)	1,308.1	0.3	1.0	1.5	
Silver (US\$/OZ)	15.2	0.1	(0.6)	(2.4)	
Debt / Forex Market					
	10-Apr	1 Day	1 Mth	3 Mths	% Chg
10 yr G-Sec yield %	7.4	7.4	7.4	7.6	
Re/US\$	69.1	69.3	69.9	70.4	

Nifty



Source: Bloomberg

News Highlights

- ▶ Pension regulator PFRDA will soon frame guidelines to bring clarity on the FDI policy in the pension sector. The new guidelines are being framed at the behest of the Central Government to provide foreign investors with all the clarity on investment norms at one place. (BL)
- ▶ **Wipro** will consider buyback of equity shares on April 16. Going by media reports, the expected buyback will be biggest by Wipro at \$1.7 billion (Rs 120 bn). This would be firm's third buyback after share repurchase of Rs 25 bn in 2016 and Rs 110 bn in 2017. (ET)
- ▶ As many as five companies are said to have submitted expressions of interest (Eo-Is) in picking up stakes in **Jet Airways**. However, the lenders have extended the deadline by two days, in the hope that Etihad Airways, which hasn't submitted an EoI, will show interest. (ET)
- ▶ Singapore Telecommunications, **Bharti Airtel** and Warburg Pincus are in talks to initially buy the near-61% stake of **Zee** founder Subhash Chandra's family in **Dish TV**, to be followed by an open offer for 26% more. (ET)
- ▶ Patanjali Ayurved's proposed acquisition of **Ruchi Soya** has reached the final stages with the Committee of Creditors (CoC) meeting to clear the proposed deal, two officials directly aware of the developments said. (ET)
- ▶ **JSW Steel** raised USD 500 million through an international bond issue. The five-year dollar money sale saw high demand from investors across Europe and Asia, and had attracted bids worth USD 1.75 billion. (Mint)
- ▶ **Hindalco Industries** has suspended alumina production at its Jharkhand plant due to spillage of bauxite residue at areas around the storage facility. (BL)
- ▶ **GE Power India** has bagged a Rs. 1.42 bn order from NTPC for the supply and installation of low NOx combustion systems for 10 GW of thermal power plant capacity. (BL)
- ▶ **Bharti Airtel** will have European vendors Nokia and Ericsson to handle its 4G voice call service across India, a senior official said while declining the possibility of roping in Chinese telecom gear maker Huawei. (Mint)
- ▶ **Parag Milk Foods** is looking to strengthen its health and nutrition business. Parag is looking to launch whey protein powder for mass consumption in different formats. It is also exploring the possibility for rolling out colostrum products as daily supplements. (BL)
- ▶ **Welspun Corp** has received additional pipe orders of 180 KMT on a global basis. Out of these additional orders, 136 KMT will be serviced from India, with a major portion to be executed from the new facility in Madhya Pradesh and balance mainly from Americas. (BL)
- ▶ **TCS** said it has collaborated with Google to build industry-specific cloud solutions. These solutions will help organisations accelerate their digital transformation and leverage data-driven insights that power superior customer experiences. (BS)
- ▶ **NBCC (India) Limited** has secured the total business of Rs 30.32 bn in the month of March, 2019. (BL)

What's Inside

- ▶ **Company Update:** Gabriel India

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Company Update

GABRIEL INDIA LTD

Stock Details

Market cap (Rs mn)	:	21582
52-wk Hi/Lo (Rs)	:	169 / 115
Face Value (Rs)	:	1
3M Avg. daily vol (Nos)	:	96,978
Shares o/s (mn)	:	144

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19E	FY20E	FY21E
Sales	20,530	22,751	25,194
Growth (%)	12.0	10.8	10.7
EBITDA	1,844	2,095	2,423
EBITDA margin (%)	9.0	9.2	9.6
Net profit	993	1,154	1,351
EPS (Rs)	6.9	8.0	9.4
Growth (%)	5.4	16.2	17.1
Book value (Rs/share)	42	48	56
Dividend per share (Rs)	1.5	1.5	1.5
ROE (%)	17.7	17.9	18.2
ROCE (%)	25.7	26.0	26.4
P/E (x)	21.7	18.7	15.9
EV/EBITDA (x)	11.1	9.5	7.9
EV/Sales (x)	1.0	0.9	0.8

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Dec-18	Sep-18	Jun-18
Promoters	52.8	54.0	54.0
FII	10.9	11.9	10.9
DII	1.9	0.7	1.4
Others	34.5	33.3	33.7

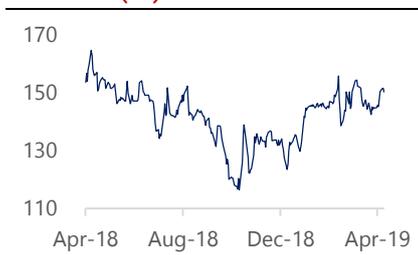
Source: Bloomberg, BSE

Price Performance (%)

(%)	1M	3M	6M
Gabriel India	(1.2)	3.4	24.8
Nifty	5.5	7.6	11.3

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

PRICE RS.150

TARGET RS.160

ADD

Automobile production witnessed decline in 4QFY19 on account of weak demand and high inventory with dealers. Given slowdown in automobile demand and cut in production by OEM's is expected to keep Gabriel's near term performance subdued.

Key highlights

In 4QFY19, two wheeler / passenger vehicle production by OEM's was down by 10% YoY / 4% YoY respectively. In the coming quarters, we expect automobile demand to improve from the current levels and Gabriel too will likely benefit in terms of both revenue growth and margin expansion. Gabriel's business model provides cushion to the company's revenue and profitability during underperformance by a segment/channel/clientele. Debt free status, efficient working capital management, free cash flow generation and healthy RoE/RoCE provides comfort on the stock.

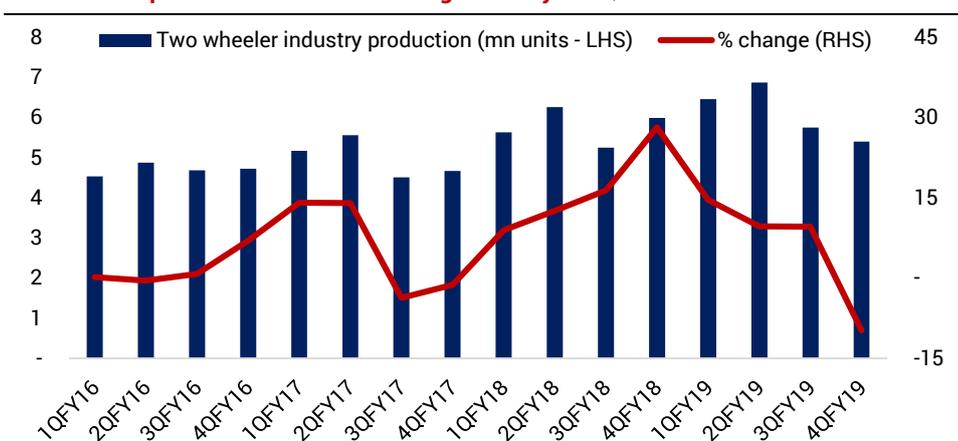
Valuation

We revise our FY19/FY20 estimates to factor in lower production by OEM's and expected near term subdued demand. We also introduce FY21 estimates and roll over our target price on FY21E earnings. We maintain ADD rating on the stock with revised price target of Rs160 (earlier Rs153). We value the company at PER of 17x FY21E earnings (earlier valued at 18x FY20E earnings).

Weak demand and high dealer inventory to hurt Gabriel's near term growth in two wheeler segment

Gabriel enjoys ~25% market share in the two wheeler segment and its key competitors include Munjal Showa and Endurance technologies. Gabriel supplies suspension system to all key players in the two wheeler segment (except Hero MotoCorp) with TVS Motors (TVSM) being the largest customer for the company.

Two wheeler production slowed down significantly in 4QFY19



Source: SIAM

Arun Agarwal

arun.agarwal@kotak.com

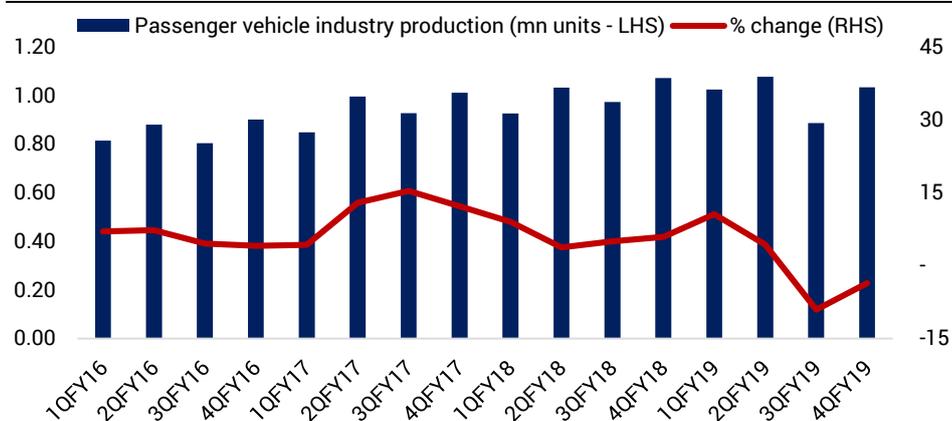
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Honda Motorcycle and Scooters India (HMSI) is also a key customer with Gabriel supplying suspension products across all the plants of HMSI. Recent production decline by HMSI is likely to hurt Gabriel's near term growth in the two wheeler segment. In March 2019, HMSI reported steep production decline of 67% YoY. This led to HMSI's production declining by 32% YoY in 4QFY19. Weak demand and high dealer inventory has been the key reason for lower production by HMSI. In 4QFY19, two wheeler production by OEM's was down by 10% YoY and 6% QoQ. Demand is likely to stay weak in the near term and we expect gradual pick-up in the coming quarters. In 9MFY19, 61% of company's revenue came from the two wheeler segment.

New businesses to benefit Gabriel's medium term growth in passenger vehicle segment

In the passenger vehicle segment, Gabriel witnessed some pressure in 3QFY19 on account of lower OEM production (9% YoY decline) and loss of business. In 4QFY19, the passenger vehicle segment volumes declined by 4% YoY. While in the near term, Gabriel's performance in the passenger vehicle segment is expected to remain subdued, we expect improvement over the medium term as the company has won few new business (new Alto, part of Volkswagen India 2.0 strategy, new XUV500 and Thar). Passenger vehicle segment accounted for 25% of company's revenue in 9MFY19. With ~25% market share, Gabriel is the second largest player in the passenger vehicle segment (Tenneco is the market leader in this segment). Gabriel is the sole supplier to models such as Brezza, Ignis, Scross and some models of Mahindra & Mahindra and Volkswagen. We expect weak 2HFY19 base and pre-buying ahead of BSVI norms implementation to support passenger vehicle growth in the coming quarters.

Passenger vehicle production growth (YoY) is down for consecutive quarter



Source: SIAM

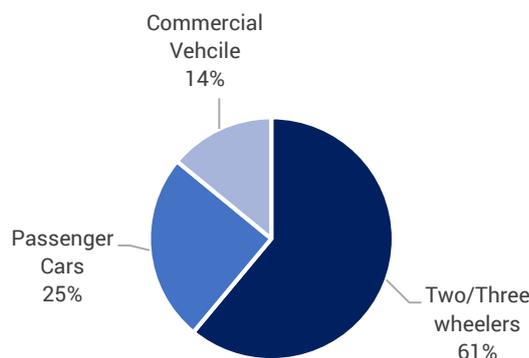
Company to continue its focus on aftermarket segment

Gabriel plans to increase the share of aftermarket revenue in the overall revenue mix. Currently the aftermarket revenue accounts for 12% of the company's overall revenue. Gabriel has a strong brand equity in the aftermarket segment. Company has a strong distribution network of more than 500 dealers and 10,000 retailers that gives it a significant footprint across the country. In the aftermarket segment, Gabriel has introduced new products and offers front forks, shock absorbers, struts, front fork components, oil seals, wheel rims, gas springs, coolants, four-wheeler bush kits, suspension bush kits and tyres and tubes.

Diversified business model to support in weak demand environment

Majority of auto ancillary are exposed to cyclical nature of auto industry, given high dependence on OEM's. Companies with diversified business model tend to fare better during cyclical downturns. Gabriel's business model provides certain cushion to the company's revenues and profitability during underperformance by a segment/channel/clientele. Gabriel generates ~61% of the revenues from the two wheeler segment, ~25% from passenger car segment and ~14% from the commercial vehicle segment. With 83% revenue share, company's dependence on OEM's continue to stay high but the management is working towards increasing its revenue share in aftermarket and export segments. Gabriel's revenue dependence is de-risked as no individual clients contributes to more than 20% of the overall revenues.

Gabriel's segment mix (FY19 YTD)



Source: Company

Valuations

Current slowdown in automobile demand is expected to keep Gabriel's performance subdued in the near term. In the coming quarters, we expect automobile demand to improve from current levels and Gabriel too will likely benefit in terms of both revenue growth and margin expansion. Debt free status, efficient working capital management, free cash flow and healthy RoE/RoCE provides comfort on the stock.

We revise our FY19/FY20 estimates to factor in lower production by OEM's and expected near term subdued demand. We also introduce FY21 estimates and roll over our target price on FY21E earnings. We maintain ADD rating on the stock with revised price target of Rs160 (earlier Rs153). We value the company at PER of 17x FY21E earnings (earlier valued at 18x FY20E earnings).

Change in estimates

(Rs mn)	FY19			FY20		
	Old	New	% chg	Old	New	% chg
Revenues	20,905	20,530	(1.8)	23,416	22,751	(2.8)
EBITDA margin (%)	9.1	9.0	-	9.3	9.2	-
Adjusted PAT	1,042	993	(4.7)	1,223	1,154	(5.6)

Source: Kotak Securities – Private Client Research

Key risk

Below expected auto demand and significant increase in input cost are key risk to our estimates.

Company Background

Gabriel is the flagship company of ANAND Group. Gabriel was set up in 1961 in collaboration with Maremont Corporation (now Gabriel Ride Control Products of Arvin Meritor Inc, USA). The company provides wide range of ride control products, including shock absorbers, struts and front forks to the automotive segment. Gabriel segment revenue mix is - 61% from two wheeler, 25% from passenger vehicle and 14% from commercial vehicle segment. In terms of channel mix – revenue from OEM / replacement/ exports stands at 83%/12%/5%. Company has seven manufacturing facility and four satellite plants in India.

Financials: Standalone

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
Revenues	18,331	20,530	22,751	25,194
% change YoY	20.6	12.0	10.8	10.7
EBITDA	1,713	1,844	2,095	2,423
% change YoY	17.2	7.6	13.7	15.6
Depreciation	383	411	474	549
EBIT	1,330	1,432	1,621	1,873
% change YoY	20.0	7.7	13.2	15.5
Net interest	29	26	22	20
Other Income	71	86	123	164
Exceptional income/(loss)	0	0	0	0
Profit before tax	1,372	1,492	1,723	2,017
% change YoY	21.6	8.8	15.5	17.1
Tax	429	498	569	666
as % of PBT	31.3	33.4	33.0	33.0
Profit after tax	942	993	1,154	1,351
Adjusted PAT	942	993	1,154	1,351
% change YoY	14.0	5.4	16.2	17.1
Shares outstanding (m)	144	144	144	144
Adjusted EPS (Rs)	6.6	6.9	8.0	9.4
DPS (Rs)	1.4	1.5	1.5	1.5

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
EBIT	1,330	1,432	1,621	1,873
Depreciation	383	411	474	549
Change in working capital	(348)	(214)	(196)	(214)
Chg in other net current asset	(3)	21	23	25
Operating cash flow	1,361	1,650	1,923	2,233
Interest	(29)	(26)	(22)	(20)
Tax	(372)	(498)	(569)	(666)
Other Income	71	86	123	164
EO income	-	-	-	-
Others	36	-	-	-
Cash flow from operations	1,067	1,212	1,456	1,711
Capex	(526)	(850)	(700)	(700)
(Inc)/dec in investments	(359)	623	-	-
Cash flow from investments	(885)	(227)	(700)	(700)
Proceeds from issue of equities	0	-	-	-
Increase/(decrease) in debt	22	(29)	-	-
Proceeds from share premium	-	-	-	-
Dividends	(231)	(251)	(260)	(260)
Cash flow from financing	(209)	(280)	(260)	(260)
Opening cash	527	500	1,205	1,701
Closing cash	500	1,205	1,701	2,452

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
Cash (inc. current investment)	1,123	1,205	1,701	2,452
Accounts receivable	2,792	3,094	3,428	3,796
Inventories	1,491	1,677	1,854	2,048
Loans and Adv & Others	537	586	638	695
Current assets	5,942	6,561	7,621	8,992
LT investments	23	23	23	23
Net fixed assets	3,043	3,481	3,708	3,858
Total assets	9,008	10,065	11,352	12,873
Payables	2,650	2,925	3,241	3,589
Other liabilities	528	581	639	702
Current Liabilities	3,179	3,506	3,880	4,292
Provisions	278	295	312	330
Deferred Tax Liability	198	198	198	198
Debt	104	75	75	75
Equity	144	144	144	144
Reserves	5,105	5,848	6,743	7,834
Total liabilities	9,008	10,065	11,352	12,873

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19E	FY20E	FY21E
Margins				
EBITDA margin (%)	9.3	9.0	9.2	9.6
EBIT margin (%)	7.3	7.0	7.1	7.4
Adj. net profit margin (%)	5.1	4.8	5.1	5.4
Working capital days				
Inventory (days)	30	30	30	30
Receivable (days)	56	55	55	55
Payable (days)	53	52	52	52
Ratios				
Debt/equity ratio (x)	0.0	0.0	0.0	0.0
ROE (%)	19.3	17.7	17.9	18.2
ROCE (%)	27.3	25.7	26.0	26.4
Valuations				
EV/ Sales	1.1	1.0	0.9	0.8
EV/EBITDA	12.0	11.1	9.5	7.9
Price to earnings (P/E)	22.9	21.7	18.7	15.9
Price to book value (P/B)	4.1	3.6	3.1	2.7

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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