

October 4, 2017

Initiation

GNA Axles Ltd

Leading player in the automotive axles space

Buy

GNA Axles Ltd (GNA), established in 1993, is one of the leading manufacturers of rear axle shafts used in on-highway and off-highway vehicular segments in India. GNA's major customer include Original Equipment Manufacturers (OEMs) like M&M, John Deere, TAFE and tier-1 suppliers to OEMs like Automotive Axles Ltd, Meritor HVS AB and Dana Ltd. GNA is well diversified with India accounting for 54% of FY17 revenue, North America (15%), Europe (21%), South America (4%) and RoW (6%). It has 2 manufacturing plants in Punjab, with capacity of manufacturing 23 lakh rear axle shafts (capacity utilization 78% for FY17), 3 lakh spindles (73%) and 4 lakh other/drive shafts (85%) per annum.

Recommendation: GNA is a leading player in automotive axle space having exposure both in domestic and international market with few of the large OEMs and Tier-1 clientele. It is expected to gain significantly on account of CV cycle recovery (both domestic and export markets) and bounce back in tractor sales. Currently, the stock is trading at 15.6x P/E and 6.6x EV/E on FY19E basis. We initiate coverage with a Buy rating and target price of ₹376 valuing it at 18x FY19E EPS.

Domestic commercial vehicle (CV) cycle recovery and better monsoons bodes well for GNA: As per CRISIL, the domestic rear axle shaft market is expected to register ~13% CAGR over the next five years. GNA is one of the leading manufacturers of axle shafts for CV and off-highway vehicles (tractors) in India. In FY17, domestic business contributed 54% to the revenue. We expect GNA to register a CAGR of 19.2% over FY17-19E for its domestic business. This would be largely driven by CV cycle recovery on account of uptick in industrial activity, evolution of hub and spoke model due to recently implemented GST, government's focus on infrastructure improvement and bounce back in tractor sales due to better monsoons and increased focus of the government on agriculture.

Diversified geographic presence & marquee clientele: Over FY13-17, export revenue for GNA registered a CAGR of 18.2%. Exports contribution to revenue increased from 34% in FY13 to 46% in FY17. This was on the back of growth coming across regions like North America (CAGR of 37% over FY13-17), Europe (16%) and ROW (27%). We expect exports revenue to register a CAGR of 4.3% over FY17-19E, owing to low cost manufacturing advantages in India, the company's diversified product portfolio and marquee clientele, CV cycle recovery (esp. in North America and Europe) and diversification into North American SUV market.

Healthy financials: Over FY12-17, GNA's revenue/ EBITDA/PAT registered a CAGR of 5.2%/9.2%/11.8%. GNA's EBITDA margin expanded by ~320bps over the same period. Going ahead, we expect revenue/PAT CAGR of 12.0%/23.2%, over FY17-19E and EBITDA margins of 16.4% in FY19E (an improvement of 73bps from FY17) on the back of better operational efficiencies. We model a gradual debt repayment over FY17-19E owing to internal accruals which could improve the debt/equity from 0.33x in FY17 to 0.17x by FY19E. RoCE and RoE are expected to remain largely stable around 15% and 11% respectively over FY17-19E.

Risk factors: 1) High client concentration (Top 10 customers account for ~70% of FY17 revenue), 2) Currency fluctuation risk owing to significant exposure to exports 3) High days of sales outstanding – domestic sales (60-75 days) and export sales (120-150 days) affecting working capital.

Financial Summary - Consolidated

| Y/E Mar (₹ Cr.) | Revenue | YoY (%) | EBITDA | EBITDA (%) | Adj.PAT | YoY (%) | EPS (₹) | P/E (x) | EV/EBITDA (x) | RoE (%) |
|-----------------|---------|---------|--------|------------|---------|---------|---------|---------|---------------|---------|
| FY15A | 430 | 6.5 | 60 | 14.0 | 22 | 62.8 | 10.06 | 32.5 | 13.8 | 21.1 |
| FY16A | 509 | 18.2 | 82 | 16.2 | 26 | 20.2 | 12.09 | 27.0 | 9.8 | 20.7 |
| FY17A | 513 | 1.0 | 80 | 15.7 | 30 | 13.9 | 13.78 | 23.7 | 9.1 | 13.6 |
| FY18E | 552 | 7.5 | 89 | 16.2 | 34 | 16.2 | 16.01 | 20.4 | 7.0 | 10.9 |
| FY19E | 644 | 16.6 | 105 | 16.4 | 45 | 30.6 | 20.91 | 15.6 | 6.6 | 12.7 |

Source: Company, Centrum Wealth Research

Key Data

| | |
|---------------------------|------------|
| Current Market Price (₹) | 327 |
| Target Price (₹) | 376 |
| Potential upside | 15% |
| Sector Relative to Market | Outperform |
| Stock Relative to Sector | Outperform |

Stock Information

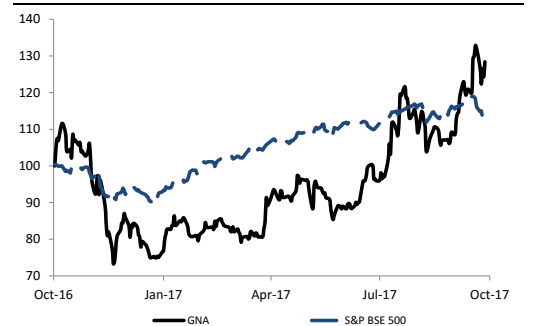
| | |
|----------------------------------|---------|
| BSE Code | 540124 |
| NSE Code | GNA |
| Face Value (₹/Share) | 10 |
| No. of shares (Cr.)* | 2.15 |
| Market Cap (₹ Cr.) | 702 |
| Free float (₹ Cr.) | 204 |
| 52 Week H / L (₹) | 333/171 |
| Avg. Daily turnover (12M, ₹ Cr.) | 0.68 |

*Adjusted for buy back and treasury stock

Shareholding Pattern (%)

| | Jun-17 | Sep-16 |
|--------------|--------|--------|
| Promoters | 70.65 | 70.65 |
| Mutual Funds | 11.12 | 11.61 |
| FPIs | 0.21 | 0.04 |
| Others | 18.02 | 17.70 |

Price Performance



| | 1M | 1M | 6M | 12M |
|------------|------|------|------|------|
| GNA | 21.3 | 41.7 | 46.4 | 30.3 |
| S&P BSE500 | 0.2 | 3.6 | 8.3 | 15.2 |

Source: Bloomberg, Centrum Wealth Research

Alpesh Thacker, Research Analyst
Siddhartha Khemka, Sr. VP Research

About the company

GNA Axles Ltd (GNA), established in 1993, is one of the leading manufacturers of rear axle shafts used in on-highway and off-highway vehicular segments in India. The products find application in light commercial vehicles (LCV), medium commercial vehicles (MCV), heavy commercial vehicles (HCV), buses (on-highway vehicles) and agricultural tractors and machinery, forestry, construction, defence and mining equipment (off-highway vehicles).

GNA’s major customer include Original Equipment Manufacturers (OEMs) like M&M, John Deere, TAFE and tier-1 suppliers to OEMs like Automotive Axles Ltd, Meritor HVS AB and Dana Ltd. GNA is well diversified with India accounting for 54% of FY17 revenue, North America (15%), Europe (21%), South America (4%) and RoW (6%). It has 2 manufacturing plants in Punjab, with capacity of manufacturing 23 lakh rear axle shafts (capacity utilization 78% for FY17), 3 lakh spindles (98%) and 4 lakh other/drive shafts (64%) per annum.

Key Business segments

Rear Axle Shafts:

The company’s primary product is rear axle shafts with a capacity to manufacture shafts of up to 165 kg input weight. GNA manufactures and supplies a diverse range of rear axle shafts for the vehicles under the on-highway and off-highway segment. The product also finds its application with other specialty vehicles used for mining and defence. Rear axle shaft contributed 79.7% revenue in FY17.

Spindles:

GNA manufactures spindles for both on-highway and off -highway vehicular segments, largely catering to HCVs and specialty vehicles. Spindle is a part of axle housing assembly of an automobile. The main purpose of the spindle is to transmit torque. Spindles contributed 13.7% revenue in FY17.

Other/Drive shafts:

GNA manufactures other shafts including drive shafts, power take-off shafts, hydraulic lift shafts and transmission shafts. These shafts are a part of transmission assembly of an automobile. Drive shaft is a mechanical component for transmitting torque and rotation. It is usually used to connect other components of a drive train that otherwise cannot be connected directly either due to distance or for the need of allowing relative movement between them. Other shafts contributed 6.6% revenue in FY17.

Exhibit 1: Product offerings



Source: Company, Centrum Wealth Research

Exhibit 2: Timeline of events



Source: Company, Centrum Wealth Research

Exhibit 3: Wide range of product portfolio

| Segment | Vehicle Category | Product Group | | |
|-------------|---|------------------|----------|--------------|
| | | Rear Axle Shafts | Spindles | Other Shafts |
| On-highway | HCV | ✓ | ✓ | ✓ |
| | MCV | ✓ | ✓ | ✓ |
| | LCV | ✓ | ✓ | ✓ |
| | Buses | ✓ | ✓ | ✓ |
| | Agricultural tractors & machinery | ✓ | ✓ | ✓ |
| Off-highway | Forestry and construction equipments | ✓ | ✓ | ✓ |
| | Electric carts and other specialty vehicles | ✓ | ✓ | ✓ |

Source: Company, Centrum Wealth Research

Exhibit 4: Capacity Utilization

| Component Description | Annual Installed Capacity (in numbers) | Actual Production (FY17) | Capacity Utilization (%) |
|-----------------------|--|--------------------------|--------------------------|
| Axle Shafts | 23,00,000 | 17,90,000 | 77.8 |
| Spindles | 3,00,000 | 2,93,000 | 97.7 |
| Drive Shafts | 4,00,000 | 2,56,000 | 64.0 |

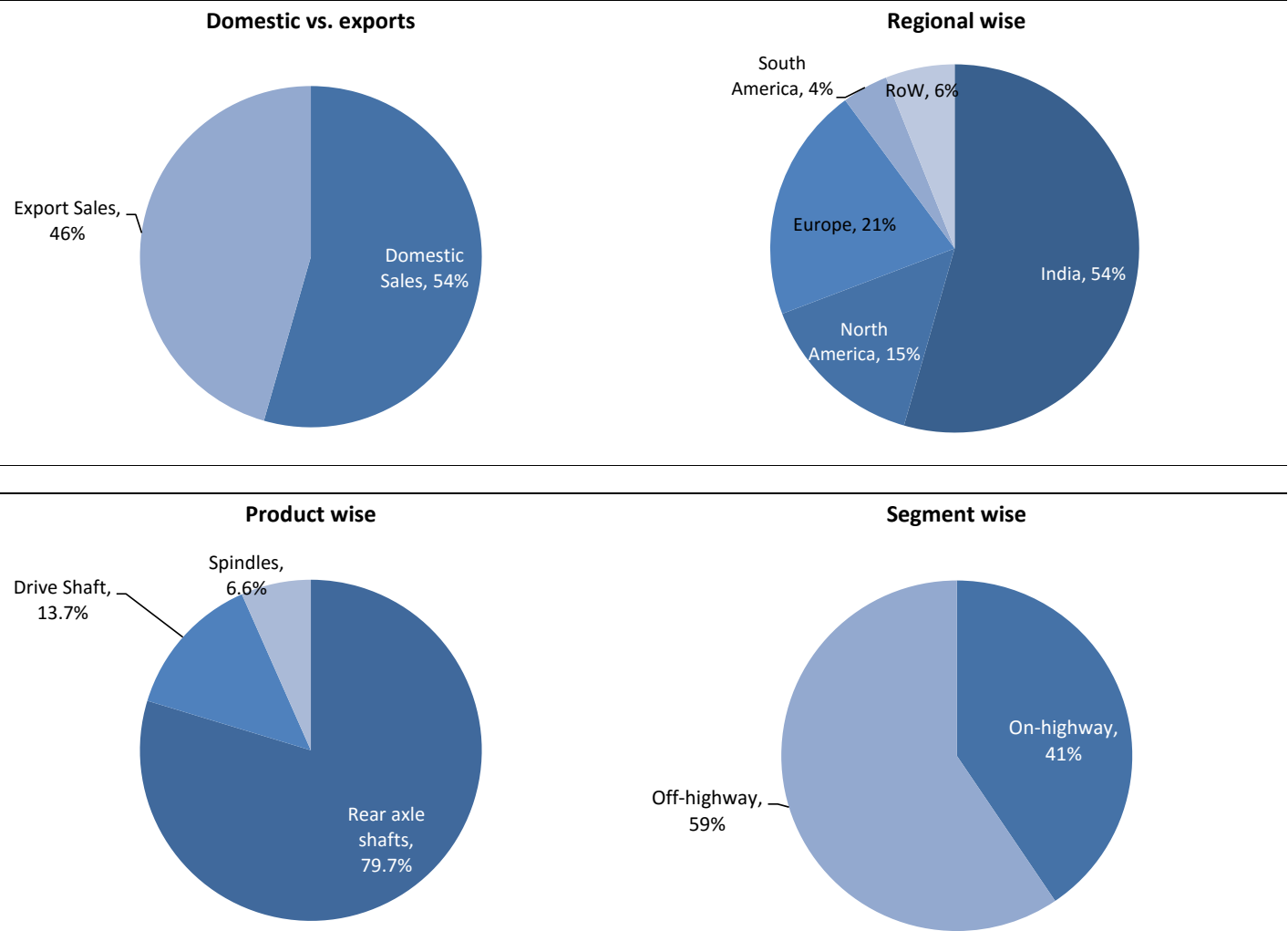
Source: Company, Centrum Wealth Research

Exhibit 5: Key Management Personnel

| Name | Designation | Profile |
|------------------------|---------------------------------|--|
| Rachhpall Singh | Chairman and Executive Director | He has over 55 years of experience in the auto component industry. He has been the Chairman and an Executive Director since the inception of the company. |
| Gursaran Singh | Managing Director | He has over 55 years of experience in the auto components industry. He has been the Managing Director of the company since 2007. |
| Jasvinder Singh Seehra | Joint Managing Director | He has over 35 years of experience in the auto components industry. He has been a Director on the Board since the inception of the Company. |
| Ranbir Singh | Chief Executive Officer | He holds a diploma in Mechanical Engineering from Punjab State Board of Technical Education. He has over 30 years of experience in the engineering and auto components industry. He has been a Director since inception. |
| Harwinder Singh Sehra | Executive Director | He holds a bachelor's degree in Arts in Business Management from Sunderland University. He has over 4 years of experience in engineering and auto components industry. He has been a Director since 1 Apr'11. |
| Kulwin Sehra | Executive Director | He holds a diploma of higher education in business and management studies from the University of Bradford. He has over four years of experience in the engineering and auto component industry. He has been a Director since 1 Apr'11. |

Source: Company, Centrum Wealth Research

Exhibit 6: Revenue mix (FY17)



Source: Company, Centrum Wealth Research

Exhibit 7: Client concentration

| Particulars | FY12 | FY13 | FY14 | FY15 | FY16 |
|---|------|------|------|------|------|
| Revenues from top domestic customers | | | | | |
| Top five domestic customers | 45 | 45 | 44 | 31 | 30 |
| Top 10 domestic customers | 59 | 61 | 60 | 46 | 40 |
| Revenues from top international customers | | | | | |
| Top five international customers | 23 | 24 | 26 | 34 | 43 |
| Top 10 international customers | 29 | 30 | 31 | 41 | 52 |
| Revenue from top customers (overall sales) | | | | | |
| Top five customers | 53 | 50 | 51 | 48 | 56 |
| Top 10 customers | 72 | 70 | 72 | 67 | 73 |

Source: Company, Centrum Wealth Research

Industry Overview

Domestic Market

Commercial Vehicles

The Indian commercial vehicle (CV) industry registered volume growth of 4.2% YoY in FY17. Medium and Heavy Commercial Vehicles (M&HCV) grew by 0.04% and Light Commercial Vehicles grew by 7.4%. The CV industry growth was urged by positive economic condition and business sentiments. In FY17, the CV volume reached 7.27 lakh units as compared to 3.83 lakh units in 2009. The CV market is largely dependent on economy, availability of load, low cost finance, freight rate and diesel price equilibrium. Currently, fuel prices are low, freight rates are at comfortable levels and customers are seeing profits. This leads to an improvement of the general economy, consequently leading to the betterment of the industry. Increased road construction and mining activities have also contributed to the economy development. In the next five years, CV sales are expected to grow due to improvement in industrial activity, steady agricultural output and strong focus on infrastructure project execution along with continued capacity constraints in the railways. The CV market is expected to grow by 5-6% in FY17-18 due to normal monsoon and implementation of GST (which has accelerated the evolution of the hub-and-spoke model for transportation in the country, where small CVs are used for last mile or spoke distribution, and HCVs for hub-to-hub transportation).

Tractors

In FY17, the India tractor industry grew by 18% YoY to 5.82 lakh units. Factors like Government's Pro-farmer policies and economy's growing pace are also expected to boost India's tractor industry and help it reach record sales in the coming years. Tractor demand is expected to increase by 8-9% CAGR from FY15-20 against a 16% CAGR seen from FY09-14 supported by the following reasons:

- Increase in farm profitability due to healthy growth in minimum selling price and growth in crop yields, due to increase in irrigation intensity leading to increase in crop output.
- Increased focus of the government on agriculture through agricultural credit.

Global Market

Commercial Vehicles

The global market for heavy commercial vehicles expanded in CY16 with an increase of 6% YoY in number of vehicles sold at 29 lakh trucks. China and Western Europe both grew at double-digit while the US and Brazil contracted significantly. This was owing to the slow pace of economic growth.

China is the biggest HCV market in the world contributing to $\sim 1/3^{\text{rd}}$ of the volumes sold. The market almost reached the 10 lakh mark in CY16, with sales climbing by 28% YoY.

The Western European market for HCV increased by 11% to 2.87 lakh units in FY17 largely supported growth in Italy, France, Spain, etc.

The US CV market saw a decline in CY16 after 6 years of growth. Sales volumes were down 11% YoY and are expected to remain softer in CY17 too.

Tractors

In terms of value North America and Europe are the key markets for agricultural equipment. These markets have witnessed strong growth over the past decade mainly supported by favorable government policies encouraging the usage as well as purchase of agro machinery and various farming equipment support the market. As per a report by Marketwatch.com, by CY24 North America and Europe farm tractor market shall record sales volume of ~ 5.8 lakh units. In terms of revenue, an expansion from \$13.6 billion in CY15 to \$17.23 billion by CY24 has been projected for the market. This could be driven by 3.0% CAGR for North America farm tractors market 5.4% CAGR for European market over CY16-24P.

Indian Auto component industry

Over the last decade, the Indian automotive component industry witnessed a robust growth on account of increased investments by automotive OEMs in India, technical capabilities and low cost advantage.

According to Automotive Component Manufacturers Association of India (ACMA), the Indian Automotive sector is expected to be among the world's top 3 in the next few decades. Auto Components Exports are projected to touch ~4.5 lakh crore by FY26 whereas the domestic sales of the auto components is expected to touch around ~5 lakh crore.

The government's Automotive Mission Plan 2016-26 is one of the major growth drivers behind this. It will drive the 'Make in India' campaign. The campaign's focus will mainly be on exports of small cars, multi-utility vehicles (MUVs), two and three wheelers and automotive components.

Axles/Spindles market outlook

By CY24, the global rear axle market is expected to reach \$57.8 billion mainly on account of increase in concern over safety and security. Total addressable market size for two of the largest export markets for GNA (North America and Europe) is ~₹5,600 crore.

The current market size for rear axle shaft used in CV and tractors manufactured in India is ~₹520 crore. The current market size for spindles used in CV is ~₹170 crore. Both rear axle and spindles market was at peak during FY12 on account of record CV production.

Over CY15-20P, rear axle shaft and spindle volumes are estimated to grow at CAGR of ~10% and ~11%, respectively. This will largely be driven by improved growing hub and spoke network, replacement of 3 wheelers, ease in CV financing, the expected improvement in industrial activity, steady agricultural output, and strong infrastructure development push.

Exhibit 8: Total addressable market for rear axle/spindles

| Market Size | |
|---|------------|
| Domestic (₹ Crore) | |
| Rear Axles | 520 |
| Spindles | 170 |
| Total Addressable Market | 690 |
| Domestic revenue (FY17) | 274 |
| Market Share | 40% |
| Exports (NA & Eur) (₹ Crore) | |
| Rear Axles/Spindles (NA) | 5,616 |
| Rear Axles/Spindles (EUR) | 1,793 |
| Total Addressable Market | 7,409 |
| Exports Revenue (NA & EUR in FY17) | 178 |
| Market Share | 2% |

Source: Company, Centrum Wealth Research

Domestic CV cycle recovery and better monsoons bodes well for GNA

As per CRISIL, the domestic rear axle shaft market is expected to register ~13% CAGR over the next five years.

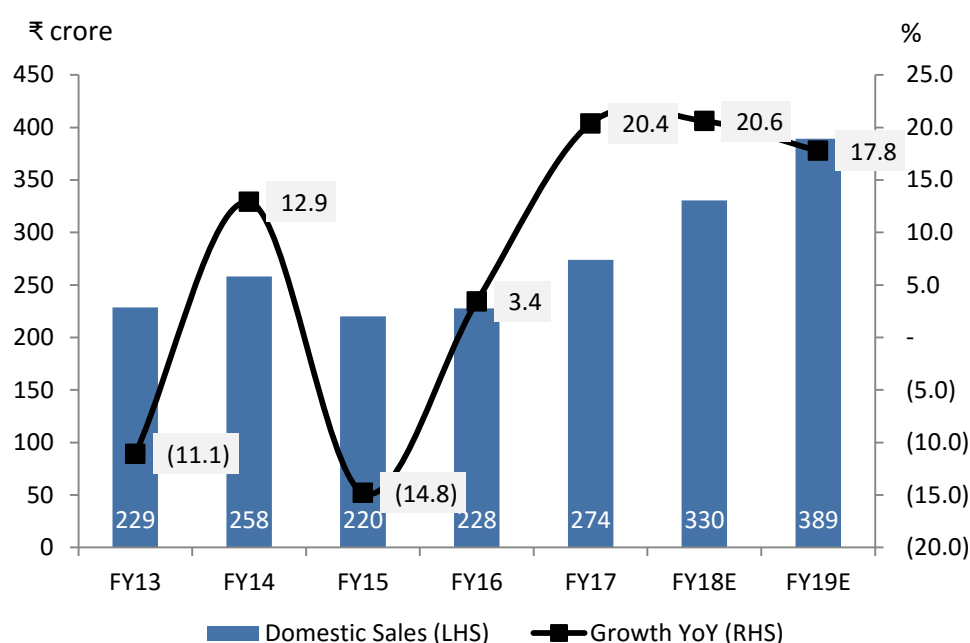
GNA is one of the leading manufacturers of axle shafts for commercial vehicles (CV) and off-highway vehicles (tractors) in India. In FY17, domestic business contributed 54% to the revenue. Segmental breakup for domestic business comprises of ~70% from CV while balance 30% comes from off-highway segment (mainly tractors). It has some of the marquee list of clients in its domestic portfolio comprising both the OEMs and tier-1 suppliers such as Claas India Private Limited, TAFE, International Tractors Ltd, Escorts Limited, Axles India Ltd, Automotive Axles Ltd and Mahindra & Mahindra Ltd.

Domestic CV market is expected to see a strong growth in coming years largely driven by uptick in industrial activity, evolution of hub and spoke model on account of recently implemented GST leading to LCV recovery, government’s focus on infrastructure improvement and housing for all etc.

Due to better monsoons in last couple of years, tractors sales are also expected to see healthy growth leading to a strong revenue generation for GNA in its off-highway segment.

We expect GNA to register a CAGR of 19.2% over FY17-19E for its domestic business largely driven by CV cycle recovery and better monsoons.

Exhibit 9: Domestic CV cycle recovery to boost growth going ahead



Source: Company, Centrum Wealth Research

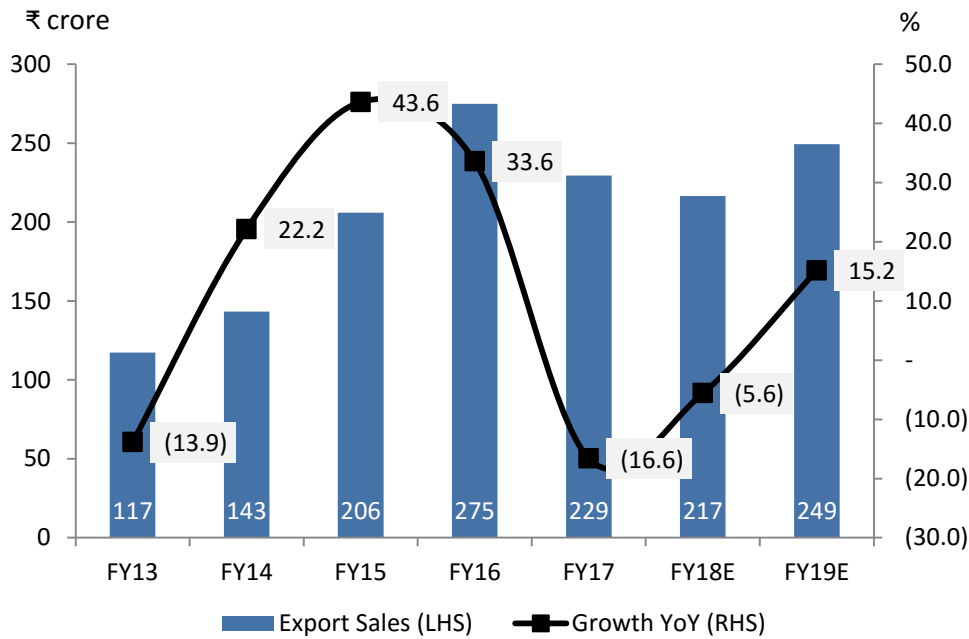
Diversified geographic presence & marquee clientele

Over FY13-17, export revenue for GNA registered a CAGR of 18.2%. Exports contribution to revenue increased from 34% in FY13 to 46% in FY17. This was on the back of growth coming across regions like North America (CAGR of 37% over FY13-17), Europe (16%) and ROW (27%). GNA’s export clients include names like Meritor HVS AB, John Deere, Transaxle Manufacturing of America, Dana Ltd and Kubota Corporation.

Given better than expected economic recovery in GNA’s major export markets like North America, Europe etc. demand across the global markets looks lucrative. The company is also planning to diversify into North American SUV market which is a huge opportunity (~ 8 million pieces/annum). Also, government’s initiative like Automotive Mission Plan (2016-2026) which aims at scaling up exports to the extent of 35-40% of its total output in next 10 years will help boost export revenues.

We expect exports revenue to register a CAGR of 4.3% over FY17-19E on the back of low cost manufacturing advantages in India, the company's diversified product portfolio, CV cycle recovery in North America and Europe and new client addition across geographies.

Exhibit 10: Global CV cycle recovery (esp. North America and Europe) to bode well



Source: Company, Centrum Wealth Research

Healthy financials:

Over FY12-17, GNA’s revenue grew at a CAGR of 5.2% to ₹513 crore. EBITDA and net profit grew by 9.2% and 11.8% respectively during the period. GNA’s EBITDA margin expanded by ~320bps over the last 5 years and we expect it to improve by 73bps over FY17-19E on the back of better operational efficiencies on account of cost control measures. In FY17, the company had a healthy balance sheet with cash and investments of ₹72 crore and debt to equity of 0.33x.

Going ahead, we expect revenue and PAT CAGR of 12.0% and 23.2%, respectively, over FY17-19E and EBITDA margins of 16.4% in FY19E. We model a gradual debt repayment over FY17-19E owing to internal accruals which could improve the debt/equity from 0.33x in FY17 to 0.17x by FY19E. RoCE and RoE are expected to remain largely stable around 15% and 11% respectively over FY17-19E.

Exhibit 11: Revenue growth seems to bottomed out

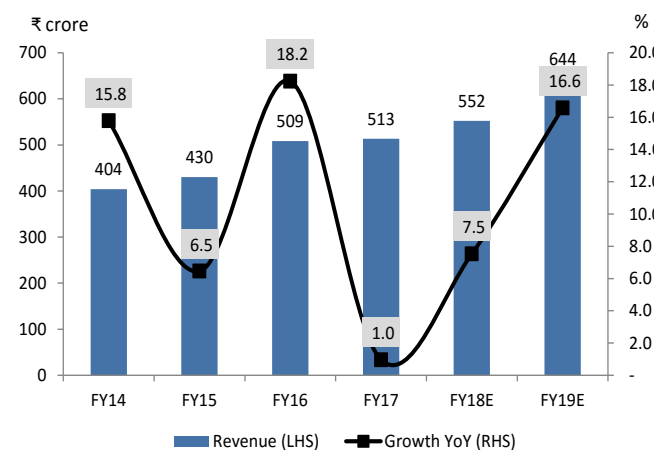
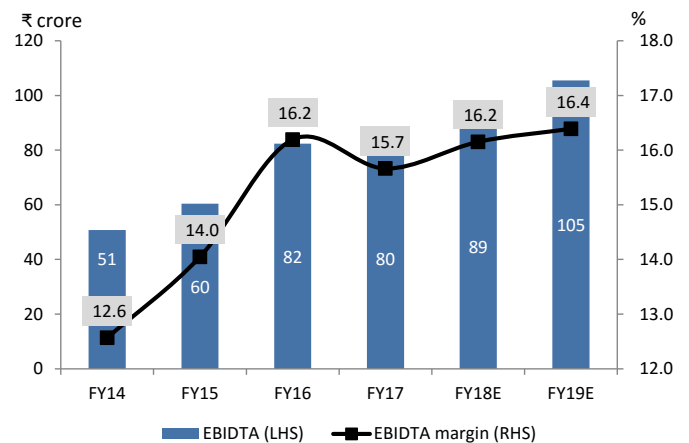


Exhibit 12: Softer commodity prices leading to stable margins



Source: Company, Centrum Wealth Research

Exhibit 13: Improving PAT margin

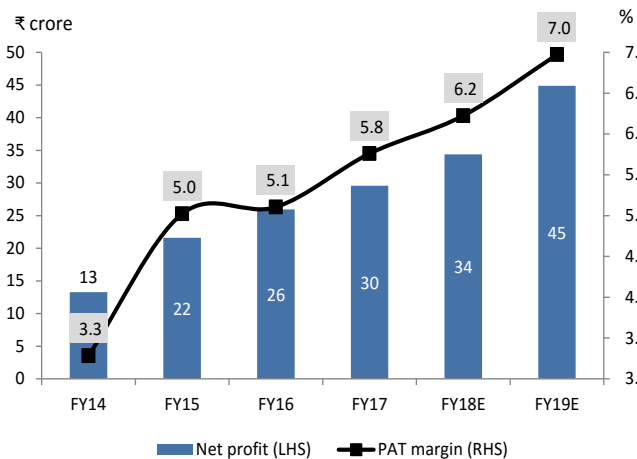
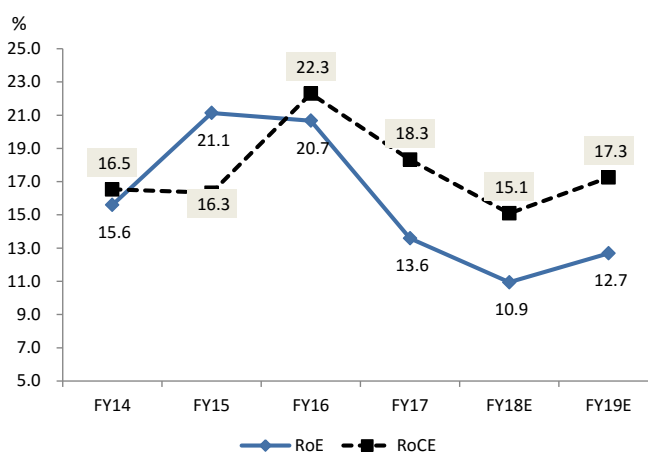
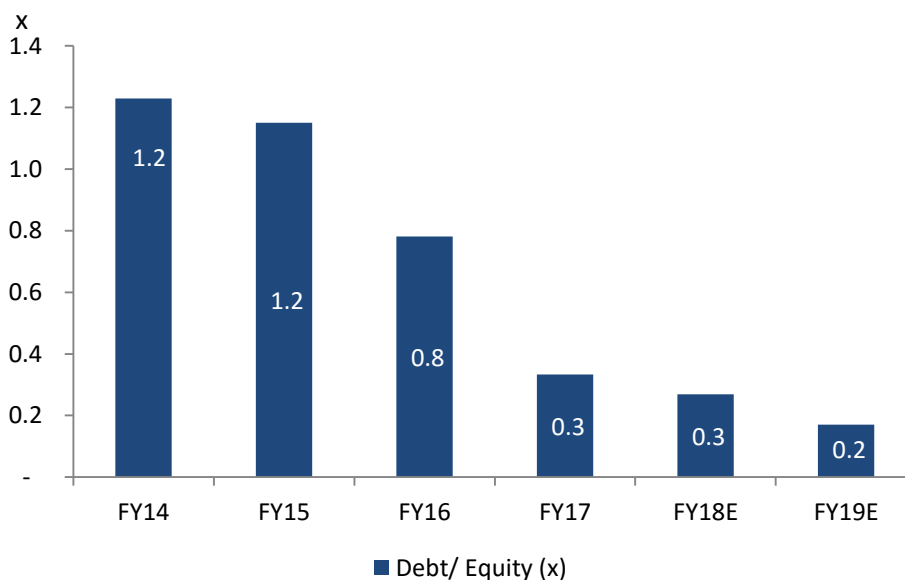


Exhibit 14: Healthy return ratios



Source: Company, Centrum Wealth Research

Exhibit 15: Deleveraging balance sheet



Source: Company, Centrum Wealth Research

Exhibit 16: Consolidated Quarterly Performance

| Y/E Mar (₹ Cr.) | Q1FY17 | Q2FY17 | Q3FY17 | Q4FY17 | Q1FY18 |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 139 | 130 | 119 | 126 | 145 |
| <i>YoY Growth (%)</i> | - | 4.7 | (4.0) | (5.3) | 4.7 |
| Cost of Raw Material | 88 | 80 | 73 | 78 | 90 |
| <i>% of sales</i> | 63.3 | 61.9 | 61.2 | 61.6 | 61.9 |
| Employee expenses | 7 | 7 | 6 | 7 | 7 |
| <i>% of Sales</i> | 4.8 | 5.1 | 5.5 | 5.8 | 5.1 |
| Other Exp. | 22 | 21 | 20 | 24 | 25 |
| <i>% of Sales</i> | 15.7 | 16.4 | 16.9 | 19.1 | 17.2 |
| EBIDTA | 22 | 22 | 19 | 17 | 23 |
| EBIDTA margin % | 16.2 | 16.6 | 16.4 | 13.4 | 15.8 |
| Depreciation | 6 | 6 | 6 | 6 | 6 |
| Interest | 4 | 4 | 2 | 2 | 2 |
| Other Income | - | 0.01 | 1 | 2 | 1 |
| PBT | 12 | 12 | 10 | 8 | 14 |
| Provision for tax | 4 | 4 | 4 | 5 | 5 |
| <i>Effective tax rate %</i> | 35.6 | 35.6 | 34.5 | 42.5 | 30.1 |
| Net Profit | 8 | 8 | 8 | 6 | 11 |
| <i>YoY Growth %</i> | - | 26.0 | 27.1 | (16.7) | 41.9 |
| PAT margin % | 5.6 | 5.8 | 6.9 | 4.8 | 7.6 |

Source: Company, Centrum Wealth Research

Risks

- **High client concentration (Top 10 customers account for ~70% of FY17 revenue)** – GNA earns ~40% of its domestic revenue and ~50% of its exports revenue from top 10 domestic and international clients respectively (~70% of total revenue is derived from top 10 clients). The loss couple of these clients can severely impact the top line for company.
- **High days of sales outstanding – domestic sales (60-75 days) and export sales (120-150 days) affecting working capital** – GNA receives payments for its sales in an average of 60 to 75 days for domestic sales and within 120 to 150 days for export customers. In FY17, receivable days increased to 122 days from 102 days in FY16. This leads to stressed working capital cycle.
- **Currency fluctuation risk** – GNA's revenue from exports is >50% which makes it vulnerable to currency fluctuations. Any adverse movement of currency can lead to significant decline of revenue going ahead.
- **Higher raw material prices** - GNA's major raw material is Alloy Steel which it majorly sources from Vardhman Special Steels, and Kalyani Steel. Any price fluctuations in steel due to supply side disruption could impact its margins in short term because passing on its impact takes some time.
- **Conflict of interest - promoter owned companies into similar lines of business:** Few of the promoters of GNA have interests in other companies like GNA Gears Limited, GNA Udyog Limited, Amarsons Automotives Limited and Guru Nanak Transmission Punjab Limited which are authorized to carry out or engage in business similar to that of GNA and serve the same customers.

Peer comparison

Exhibit 17: Business Comparison

| | MKT CAP (₹ Cr.) | FY17 (Rs Cr) | | Revenue Growth | | OPM (%) | | PAT Growth | |
|------------------|-----------------|--------------|-----|----------------|-------|---------|-------|------------|-------|
| | | Revenue | PAT | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| JAMNA AUTO INDS | 2,159 | 1,299 | 105 | 8.2 | 13.6 | 13.7 | 14.1 | 0.7 | 19.8 |
| AUTO AXLES LTD | 1,334 | 1,147 | 49 | 9.5 | 11.3 | 10.1 | 10.7 | 19.5 | 23.0 |
| MM FORGINGS LTD | 789 | 478 | 43 | 10.7 | 12.9 | 22.0 | 22.4 | 20.0 | 18.7 |
| GNA AXLES LTD | 702 | 513 | 30 | 7.5 | 16.6 | 16.2 | 16.4 | 16.2 | 30.6 |
| TALBROS ENGINEER | 165 | 158 | 7 | 30.7 | 16.0 | 9.8 | 9.8 | 31.7 | 20.5 |

Source: - *GNA Axles- Centrum Wealth Estimates, Others – Bloomberg Consensus Estimates

Exhibit 18: Relative Valuation

| | Mcap to Sales (x) | RoE (%) | | EV/EBITDA (x) | | P/E (x) | |
|------------------|-------------------|---------|-------|---------------|-------|---------|-------|
| | | FY18E | FY19E | FY18E | FY19E | FY18E | FY19E |
| JAMNA AUTO INDS | 1.7 | 28.3 | 27.1 | 11.5 | 9.8 | 20.4 | 17.1 |
| AUTO AXLES LTD | 1.2 | 14.4 | 15.8 | 10.2 | 8.7 | 23.0 | 18.7 |
| MM FORGINGS LTD | 1.6 | 14.7 | 15.2 | 7.2 | 6.3 | 15.1 | 12.8 |
| GNA AXLES LTD | 1.4 | 10.9 | 12.7 | 7.0 | 6.6 | 20.4 | 15.6 |
| TALBROS ENGINEER | 1.0 | 17.9 | 17.7 | 8.7 | 7.5 | 17.9 | 14.9 |

Source: - *GNA Axles- Centrum Wealth Estimates, Others – Bloomberg Consensus Estimates

Stock price data is as on 4 Oct'17

Technical View

- The stock is moving in a strong uptrend by maintaining 'Higher Highs Higher Lows' on daily chart.
- The '89 EMA' on daily chart, which acted as a strong resistance earlier, is now acting as a support from last few months. We witnessed healthy volumes in recent up move, indicating buying interest among market participants.
- Currently, the stock is trading at its 'All Time High' levels and yet there is no sign of reversals seen on chart. Thus, till the time, it sustains above its immediate support zone of 275 – 280, the on-going optimism should continue and we won't be surprised to see 385 – 400 levels in coming months.
- Traders should keep a stop loss for long positions at 274 on closing basis.

Exhibit 19: Technical Chart



Source: Company, Centrum Wealth Research

Financials - Consolidated

Income Statement

| Y/E Mar (₹ Cr) | FY15 | FY16 | FY17 | FY18E | FY19E |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 430 | 509 | 513 | 552 | 644 |
| <i>Growth (%)</i> | 6.5 | 18.2 | 1.0 | 7.5 | 16.6 |
| Employee Expenses | 21 | 24 | 27 | 28 | 32 |
| <i>% of sales</i> | 4.8 | 4.7 | 5.3 | 5.0 | 5.0 |
| Operational expenses | 279 | 318 | 319 | 346 | 402 |
| <i>% of Sales</i> | 64.8 | 62.4 | 62.0 | 62.7 | 62.5 |
| Other expenses | 70 | 85 | 87 | 89 | 104 |
| <i>% of Sales</i> | 16.4 | 16.7 | 17.0 | 16.1 | 16.1 |
| EBIDTA | 60 | 82 | 80 | 89 | 105 |
| EBIDTA margin % | 14.0 | 16.2 | 15.7 | 16.2 | 16.4 |
| Depreciation | 23 | 27 | 24 | 28 | 32 |
| Interest | 17 | 16 | 13 | 11 | 8 |
| Other Income | 1 | 0.4 | 3 | 1 | 1 |
| PBT | 21 | 39 | 47 | 51 | 67 |
| Provision for tax | -1 | 13 | 17 | 17 | 22 |
| <i>Effective tax rate %</i> | NM | 34.0 | 36.9 | 33.0 | 33.0 |
| Net Profit | 22 | 26 | 30 | 34 | 45 |
| <i>Growth %</i> | 62.8 | 20.2 | 13.9 | 16.2 | 30.6 |
| PAT margin % | 5.0 | 5.1 | 5.8 | 6.2 | 7.0 |

Source: Company, Centrum Wealth Research

Balance Sheet

| Y/E Mar (₹ Cr) | FY15 | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|------------|------------|------------|------------|------------|
| Share capital | 15 | 15 | 21 | 21 | 21 |
| Reserves & surplus | 98 | 123 | 275 | 310 | 355 |
| Shareholder's fund | 113 | 138 | 297 | 331 | 376 |
| Total Loan fund | 130 | 108 | 99 | 89 | 64 |
| Deferred Tax Liab. (net) | 6 | 4 | 2 | 2 | 2 |
| Total capital employed | 249 | 250 | 398 | 423 | 443 |
| Net fixed assets | 160 | 147 | 134 | 166 | 155 |
| Investments | 0 | 0 | 0 | 0 | 0 |
| Long term assets | 0 | 2 | 13 | 13 | 13 |
| Cash and bank | 0 | 1 | 72 | 164 | 74 |
| Inventories | 92 | 91 | 110 | 97 | 146 |
| Debtors | 122 | 162 | 182 | 155 | 243 |
| Loans and advances | 23 | 18 | 65 | 47 | 57 |
| Other Current Assets | 30 | 25 | 0 | 0 | 0 |
| Total current assets | 267 | 297 | 430 | 464 | 519 |
| Current liab. and prov | 178 | 196 | 179 | 220 | 244 |
| Net current assets | 89 | 101 | 252 | 244 | 275 |
| Total assets | 249 | 250 | 398 | 423 | 443 |

Source: Company, Centrum Wealth Research

Cash Flow

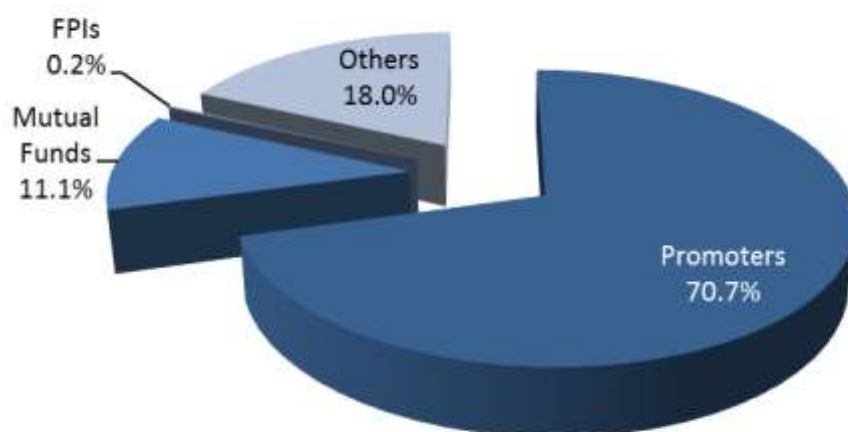
| Y/E Mar (₹ Cr) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---------------------------------|--------------|-------------|-------------|-------------|-------------|
| Net Profit Before Tax | 21 | 39 | 47 | 51 | 67 |
| Depreciation | 23 | 27 | 24 | 28 | 32 |
| Others | 15 | 15 | 8 | 10 | 7 |
| Change in working capital | (26) | (10) | (49) | 100 | (122) |
| Tax expenses | (6) | (16) | (20) | (17) | (22) |
| Cash flow from Ops | 27 | 55 | 10 | 172 | (39) |
| Capex | (14) | (17) | (21) | (60) | (20) |
| Other investing activities | (1) | 0 | (15) | 1 | 1 |
| Cash flow from Invest | (14) | (16) | (36) | (59) | (19) |
| Proceeds from Eq. Sh. | - | - | 130 | - | - |
| Borrowings / (Repayments) | (8) | (20) | (19) | (10) | (25) |
| Interest Paid | (16) | (15) | (11) | (11) | (8) |
| Others | 11 | (3) | (2) | - | - |
| Cash flow from financing | (13) | (39) | 98 | (21) | (33) |
| Net Cash Flow | (0.1) | 0.2 | 72 | 92 | (91) |

Source: Company, Centrum Wealth Research

Key Ratios

| Y/E Mar | FY15 | FY16 | FY17 | FY18E | FY19E |
|-------------------------------|------|------|-------|-------|-------|
| Return ratios (%) | | | | | |
| ROE | 21.1 | 20.7 | 13.6 | 10.9 | 12.7 |
| ROCE | 16.3 | 22.3 | 18.3 | 15.1 | 17.3 |
| Turnover Ratios (days) | | | | | |
| Inventory | 65 | 66 | 72 | 69 | 69 |
| Debtors | 99 | 102 | 122 | 112 | 113 |
| Creditors | 115 | 112 | 112 | 112 | 112 |
| Fixed asset (x) | 1.6 | 1.7 | 1.7 | 1.6 | 1.7 |
| Solvency Ratio (x) | | | | | |
| Debt-equity | 1.2 | 0.8 | 0.3 | 0.3 | 0.2 |
| Interest coverage | 2.2 | 3.4 | 4.7 | 5.8 | 9.7 |
| Per share (₹) | | | | | |
| EPS | 10.1 | 12.1 | 13.8 | 16.0 | 20.9 |
| BVPS | 52.6 | 64.4 | 138.3 | 154.3 | 175.2 |
| CEPS | 20.8 | 24.8 | 24.9 | 29.0 | 35.7 |
| DPS (₹) | - | - | - | - | - |
| Valuation (x) | | | | | |
| P/E | 32.5 | 27.0 | 23.7 | 20.4 | 15.6 |
| P/BV | 6.2 | 5.1 | 2.4 | 2.1 | 1.9 |
| EV/EBIDTA | 13.8 | 9.8 | 9.1 | 7.0 | 6.6 |
| EV/Sales | 1.9 | 1.6 | 1.4 | 1.1 | 1.1 |

Source: Company, Centrum Wealth Research

Annexure 1: Shareholding Pattern (as of 30 Jun'17)

| Key Investors | % Holding |
|--------------------------------------|------------------|
| HDFC MUTUAL FUND | 5.39 |
| UTI MUTUAL FUND | 2.87 |
| SUNDARAM MUTUAL FUND | 2.43 |
| Sundaram Alternative Investment fund | 3.14 |

Source: BSE India

Appendix

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