October 27, 2017

Q2FY18 Result Update

GNA Axles Ltd

Good show!

Buy

GNA Axles Ltd (GNA) Q2FY18 consolidated results were good. Revenue grew by 18% YoY to ₹154 crore supported both by domestic (up 34.2%) and exports (up 16.2%). EBITDA was up 10% to ₹24 crore with margin contraction of 115bps to 15.5%. Lower finance cost (down 58% YoY) led to adj. net profit rising by 42% to ₹11 crore.

Recommendation: In our recent initiation report *click here* (Price: ₹327, 4 Oct'17), we gave Buy rating on the stock as we believed GNA is expected to gain significantly on account of CV cycle recovery (both domestic and export markets) and bounce back in tractor sales. In a short span of time, the stock gained 21% touching life high of ₹395 and is trading at ₹352. In Q2FY18, GNA posted good result with overall revenue growth driven both by domestic and exports business. We increase our revenue growth expectations to 14.3% and net profit growth to 27.2% over FY17-19E. EBITDA margin is expected to expand by ~70bps over FY17-19E. GNA currently trades at a 15.8x FY19E PE. Given the anticipated improvement in CV cycle recovery, slew of policy reforms on road infrastructure development (domestic front) and new product development, we maintain our positive view and Buy rating with a target price of ₹400 valuing the stock at 18x FY19E EPS.

Q2FY18 Result Summary

Y/E Mar (₹ Cr.)	Q2FY18	Q2FY17	YoY(%)	Q1FY18	QoQ(%)
Revenue	154	130	18%	145	6%
EBITDA	24	22	10%	23	4%
Margin (%)	15.5	16.6	-115bps	15.8	-34bps
Adj. PAT	11	8	42%	11	-4%

Source: Company, Centrum Wealth Research

Domestic business growth to remain healthy: For Q2FY18, domestic business (62% of Q2FY18 revenue) saw a significant improvement with revenue growing at 34.2% YoY to ₹108 crore. The domestic markets are likely to perform better going ahead on account of CV cycle recovery due to uptick in industrial activity, evolution of hub and spoke model due to recently implemented GST, government's focus on infrastructure improvement. Also, the recently announced road development project (amounting to an outlay of ₹7 lakh crore) is expected to be a huge trigger for improved CV sales. Further, bounce back in tractor sales due to better monsoons and increased focus of the government on agriculture is likely to give additional push to the top line growth. The slew of policy reforms and CV cycle uptick is expected to drive domestic business growth at 16.2% p.a. over FY17-19E.

Better than expected recovery in exports business: In Q2FY18, exports (38% of Q2FY18 revenue) was a positive surprise with revenue increasing at 16.1% YoY to ₹66 crore. GNA is now focussing on entering into SUV and LCV segment for both domestic and North America region and the commercial production is likely to be start in FY20. The new segment has a revenue potential of ₹100/ annum. Also, the company expects market share gains in the exports market on account of new client additions. Given the recent development, exports business is likely to do better and we anticipate 13.6% CAGR in exports revenue 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.

Key Data

Current Market Price (₹)	349
Target Price (₹)	400
Potential upside	15%
Sector Relative to Market	Outperform
Stock Relative to Sector	Outperform

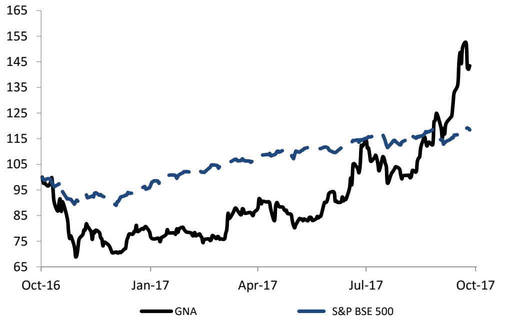
Stock Information

BSE Code	540124
NSE Code	GNA
Face Value (₹/Share)	10
No. of shares (Cr.)	2.15
Market Cap (₹ Cr.)	751
Free float (₹ Cr.)	218
52 Week H / L (₹)	395/171
Avg. Daily turnover (12M, ₹ Cr.)	0.73

Shareholding Pattern (%)

	Sep-17	Sep-16
Promoters	70.65	70.65
Mutual Funds	11.33	11.61
FPIs	0.21	0.04
Others including Public	17.81	17.70

1 year Indexed Price Performance



Price Performance (%)

	1M	3M	6M	1YR
GNA	20.2	24.1	51.4	41.6
S&P BSE500	4.9	4.2	10.5	20.3

Source: Bloomberg, Centrum Wealth Research

***Alpesh Thacker**, Research Analyst*
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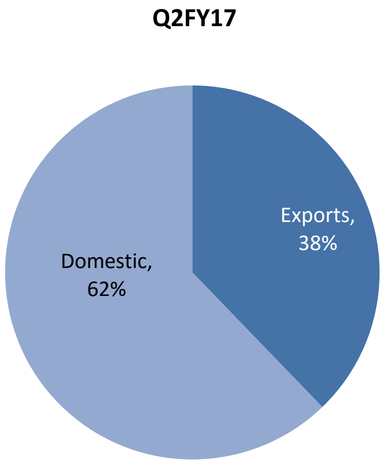
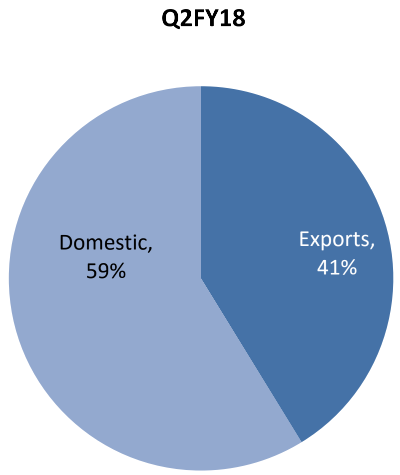
Financial Summary - Consolidated

Y/E Mar (₹ Cr.)	Revenue	YoY (%)	EBITDA	EBITDA (%)	NPAT	YoY (%)	EPS (₹)	P/E (x)	EV/EBITDA (x)	RoE (%)
FY15A	430	6.5	60	14.0	22	62.8	10.06	34.8	14.6	21.1
FY16A	509	18.2	82	16.2	26	20.2	12.09	28.9	10.4	20.7
FY17A	513	1.0	80	15.7	30	13.9	13.78	25.4	9.7	13.6
FY18E	558	8.7	90	16.2	35	18.5	16.32	21.4	7.5	11.1
FY19E	669	19.8	110	16.4	48	36.1	22.21	15.8	6.8	13.4

Source: Company, Centrum Wealth Research

Exhibit 1: Revenue mix





Source: Company, Centrum Wealth Research

Exhibit 2: Consolidated Quarterly Performance

Y/E Mar (₹ Cr.)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	**130**	**119**	**126**	**145**	**154**
YoY Growth (%)	*4.7*	*(4.0)*	*(5.3)*	*4.7*	*18.1*
Cost of Raw Material	80	73	78	90	97
% of sales	*61.9*	*61.2*	*61.6*	*61.9*	*63.0*
Employee expenses	7	6	7	7	8
% of Sales	*5.1*	*5.5*	*5.8*	*5.1*	*5.0*
Other Exp.	21	20	24	25	25
% of Sales	*16.4*	*16.9*	*19.1*	*17.2*	*16.6*
EBIDTA	**22**	**19**	**17**	**23**	**24**
EBIDTA margin %	***16.6***	***16.4***	***13.4***	***15.8***	***15.5***
Depreciation	6	6	6	6	6
Interest	4	2	2	2	2
Other Income	0.01	1	2	1	1
PBT	12	10	8	14	15
Provision for tax	4	4	5	5	6
Effective tax rate %	*35.6*	*34.5*	*42.5*	*30.1*	*34.8*
Net Profit	**8**	**8**	**6**	**11**	**11**
YoY Growth %	*26.0*	*27.1*	*(16.7)*	*41.9*	*41.5*
PAT margin %	***5.8***	***6.9***	***4.8***	***7.6***	***6.9***

Source: Company, Centrum Wealth Research

Technical View

- The stock had a sharp rally in the recent past as we witnessed an up move of around 66%from the low of August'17.
- Currently, the stock is correcting from last couple of weeks on account of profit booking. These types of corrections are good for the stock for a sustainable rally.
- At current juncture, stock has a strong support in the zone of 315 – 325 and any decline towards the same should be used as a buying opportunity in the counter.
- In coming months, we may see 415 – 425 levels in the counter. Thus, long can be taken on declines with stop loss of 280 on closing basis.

Exhibit 2: Technical Chart

Source: Company, Centrum Wealth Research

Financials - Consolidated

Income Statement

Y/E Mar (₹ Cr)	FY15	FY16	FY17	FY18E	FY19E
Revenue	**430**	**509**	**513**	**558**	**669**
Growth (%)	*6.5*	*18.2*	*1.0*	*8.7*	*19.8*
Employee Expenses	21	24	27	28	34
% of sales	*4.8*	*4.7*	*5.3*	*5.0*	*5.0*
Operational expenses	279	318	319	350	418
% of Sales	*64.8*	*62.4*	*62.0*	*62.7*	*62.5*
Other expenses	70	85	87	90	108
% of Sales	*16.4*	*16.7*	*17.0*	*16.1*	*16.1*
EBIDTA	**60**	**82**	**80**	**90**	**110**
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	3	1	1
PBT	21	39	47	52	71
Provision for tax	-1	13	17	17	23
Effective tax rate %	*-4.1*	*34.0*	*36.9*	*33.0*	*33.0*
Net Profit	**22**	**26**	**30**	**35**	**48**
Growth %	*62.8*	*20.2*	*13.9*	*18.5*	*36.1*
PAT margin %	***5.0***	***5.1***	***5.8***	***6.3***	***7.1***

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	358
Shareholder's fund	113	138	297	332	380
Total Loan fund	130	108	99	89	64
Deferred Tax Liab. (net)	6	4	2	2	2
Total capital employed	**249**	**250**	**398**	**423**	**446**
Net fixed assets	160	147	134	166	155
Investments	0.00	0.01	0.01	0.01	0.01
Long term assets	0	2	13	13	13
Cash and bank	0	1	72	163	69
Inventories	92	91	110	100	153
Debtors	122	162	182	159	255
Loans and advances	23	18	65	48	59
Other Current Assets	30	25	0	0	0
Total current assets	267	297	430	469	536
Current liab. and prov	178	196	179	224	257
Net current assets	89	101	252	244	279
Total assets	**249**	**250**	**398**	**423**	**446**

Source: Company, Centrum Wealth Research

Cash Flow

Y/E Mar (₹ Cr)	FY15	FY16	FY17	FY18E	FY19E
Net Profit Before Tax	21	39	47	52	71
Depreciation	23	27	24	28	32
Others	15	15	8	10	7
Change in working capital	(26)	(10)	(49)	97	(128)
Tax expenses	(6)	(16)	(20)	(17)	(23)
Cash flow from Ops	**27**	**55**	**10**	**170**	**(42)**
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)**	**0**	**72**	**90**	**(94)**

Source: Company, Centrum Wealth Research

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Return ratios (%)					
ROE	21.1	20.7	13.6	11.1	13.4
ROCE	16.3	22.3	18.3	15.3	18.1
Turnover Ratios (days)					
Inventory	65.0	65.8	71.7	68.6	69.0
Debtors	99.0	101.9	122.4	111.6	112.9
Creditors	114.7	111.6	112.0	112.4	112.1
Fixed asset (x)	1.6	1.7	1.7	1.6	1.8
Solvency Ratio (x)					
Debt-equity	1.2	0.8	0.3	0.3	0.2
Interest coverage	2.2	3.4	4.7	5.9	10.3
Per share (₹)					
EPS	10.1	12.1	13.8	16.3	22.2
BVPS	52.6	64.4	138.3	154.6	176.9
CEPS	20.8	24.8	24.9	29.3	37.0
DPS (₹)	-	-	-	-	-
Valuation (x)					
P/E	34.8	28.9	25.4	21.4	15.8
P/BV	6.7	5.4	2.5	2.3	2.0
EV/EBIDTA	14.6	10.4	9.7	7.5	6.8
EV/Sales	2.0	1.7	1.5	1.2	1.1

Source: Company, Centrum Wealth Research

Appendix

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