



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Reco: Buy	↑
CMP: Rs. 416	
Price Target: Rs. 490	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

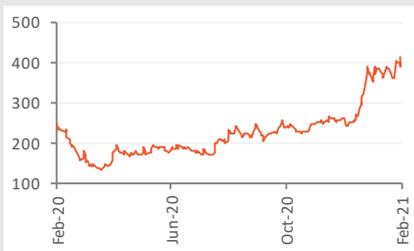
Company details

Market cap:	Rs. 893 cr
52-week high/low:	Rs. 430 / 132
NSE volume: (No of shares)	1.31 lakh
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.70 lakh

Shareholding (%)

Promoters	67.5
FII	1.1
DII	12.5
Others	18.9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.2	67.5	97.0	53.8
Relative to Sensex	4.8	49.0	62.0	29.1

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs. 490, factoring in better multiples on a strong traction in business outlook.
- GNA's performance during Q3FY2021 was phenomenal, registering net earnings growth of 248.6% y-o-y, driven by 29% growth in sales and 628 bps expansion in EBITDA margin at 17.4%.
- We expect GNA's earnings to continue to grow strongly in the medium term, aided by CV and tractor industries.
- The stock trades attractively at P/E multiple of 11.5x and EV/EBITDA multiple of 5.4x its FY2023E estimates.

We expect GNA Axles Limited (GNA) to be a beneficiary of strong growth outlook for truck sales in US and European markets. GNA is witnessing demand recovery in the export CV segment, which contributes about 60% to overall revenue. Both key markets of US (41% of revenue) and Europe (13% of revenue) are witnessing recovery in truck volumes. With the government opening up the economy, business activities are picking up, resulting in improvement in CV volumes. GNA's foray into the sports utility vehicle (SUV) segment would act as an incremental growth driver going forward. GNA would supply SUV axle shafts to its existing CV customers (in export markets) that are already into the SUV business and benefit from its existing relationships. Moreover, GNA has a dominant market share (>50% market share) in supplying rear axle shafts, spindles, and drive shaft to domestic tractor and CV segments. Domestic tractor markets continue to register robust sales because of higher farm income, strong kharif sowing, and good monsoon season. The domestic CV industry is also showing strong signs of recovery with LCVs leading the growth. Overall, we expect the tractor and commercial vehicle industries to report strong double-digit volume growth in FY2022E, the direct beneficiary of which would be GNA. GNA reported better-than-expected Q3FY2021 results with net earnings growing by robust 248.6% y-o-y, driven by 29% growth in sales and 628 bps expansion in EBITDA margin at 17.4%. Given that the tractor and CV industries are reporting strong volume growth; we expect GNA to be a key beneficiary. We expect GNA's earnings to grow by 29.1% in FY2022E and 22.9% in FY2023E, driven by a 14% CAGR during FY2021E-FY2023E and a 70 bps improvement in EBITDA margin. We remain positive on GNA and retain our Buy rating on the stock with a revised price target (PT) of Rs. 490.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 490: GNA is witnessing strong traction from domestic and global OEMs, driven by recovery in US and European CV market and India's tractor market. Outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. Operating profit margin (OPM) would expand due to operating leverage and cost-control measures. We have maintained our earnings estimates, but we remain positive on improved business outlook. The stock is attractively valued at P/E multiple of 11.5x and EV/EBITDA multiple of 5.4x its FY2023E estimates. We retain our Buy rating on the stock with a revised PT of Rs. 490.

Key risk

GNA's revenue is heavily dependent on US and European markets. Thus, the company has risks associated to these countries. Moreover, revenue can be impacted by fluctuations in foreign exchange movements. If GNA is unable to pass on rising steel prices to its OEMs, this can impact its profitability.

Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	928	909	827	960	1,075
Growth (%)	38.5	(2.1)	(9.0)	16.0	12.0
EBIDTA	145	125	125	149	170
OPM (%)	15.6	13.7	15.1	15.5	15.8
Recurring PAT	66	53	49	63	78
Growth (%)	29.5	(19.9)	(6.8)	29.1	22.9
EPS (Rs)	30.7	24.6	22.9	29.5	36.3
PE (x)	13.6	16.9	18.2	14.1	11.5
P/BV (x)	2.2	2.0	1.8	1.6	1.5
EV/EBIDTA (x)	7.2	8.3	8.1	6.5	5.4
RoCE (%)	16.4	11.8	10.0	11.6	12.7
RoNW (%)	19.2	13.0	11.8	13.6	15.2

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector View – Demand picking up in domestic as well as export markets

The domestic tractor industry is expected to register strong growth in H2FY2021, driven by strong rural sentiments. Good monsoons and higher kharif sowing have boosted farm sentiments with the tractor industry growing in double digits since June 2020. CV sales in key markets of US and Europe have been improving and have reached almost pre-COVID levels. Opening up of the economy under the government's unlock measures has led to improvement in demand. North America Class 8 truck orders are also improving, indicating strong revival in demand. We expect strong recovery in CV export markets from FY2022, driven by normalisation of economic activities.

■ Company Outlook – Strong earnings growth

GNA has reported a strong 27% revenue CAGR in exports over the past four years. GNA has been gaining market share in exports due to comparatively low-cost advantage. The company has been winning higher business from clients, driven by establishing product reliability and quality. Moreover, foray into SUV provides an incremental growth opportunity for GNA. The company would supply to existing export CV customers who also manufacture SUV. The company has a strong long-term revenue visibility, given its strong relationships with OEMs, both in India and globally. We expect GNA's earnings to grow by 29.1% in FY2022E and 22.9% in FY2023E, driven by a 14% CAGR during FY2021E-FY2023E and a 70 bps improvement in EBITDA margin.

■ Valuation – Maintain Buy with a revised PT of Rs. 490

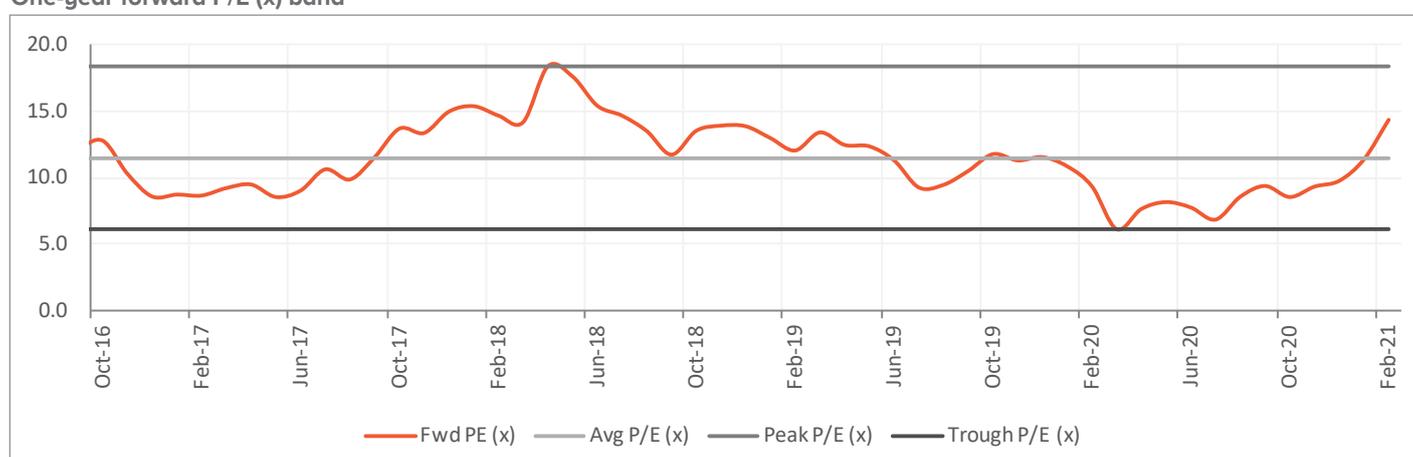
GNA is witnessing strong traction from domestic and global OEMs, driven by recovery in US and European CV market and India's tractor markets. The outlook remains positive with strong recovery expected from FY2022, driven by normalisation of economic activities. OPM would expand due to operating leverage and cost-control measures. We have maintained our earnings estimates, but we remain positive on improved business outlook. The stock is attractively valued at P/E multiple of 11.5x and EV/EBITDA multiple of 5.4x its FY2023E estimates. We retain our Buy rating on the stock with a revised PT of Rs. 490.

Price Target calculation

Particulars	Rs/ share
FY2023E EPS	36.3
Target P/E Multiple (x)	13
Target Price (Rs.)	490
Upside (%)	18.0%

Source: Company; Sharekhan Research

One-year forward P/E (x) band



Source: Sharekhan Research

About company

GNA is one of the leading manufacturers of rear axle shafts, spindles, and splined shafts. GNA has a large variety of axle shafts ranging from 1.5kg to 65kg and capacity to produce up to 165kg, producing about 2 million axle shafts annually. Rear axle shafts account for 82.7% of revenue, while spindles and drive shafts account for 11.6% and 5.7% of revenue, respectively. The company primarily caters to the requirements of CVs and tractor segments in the domestic and exports markets. CV domestic sales constitute 5% of the company's total sales, while CV exports constitute 50% of sales. Similarly, tractor domestic sales constitute 40%, while tractor exports account for 6% of the company's sales.

Investment theme

GNA is witnessing demand improvement in both domestic as well as export markets. In the domestic market, tractor demand has recovered strongly with double-digit growth reported in the past four months. Increased kharif sowing and good monsoon have resulted in higher income for farmers. In export markets, truck demand is improving in both key markets of US and Europe. Truck sales have almost reached pre-COVID levels of February 2020. USA Class 8 truck orders have also risen on both y-o-y and m-o-m basis in the past three months, which indicates strong recovery in truck demand going ahead. With normalisation of economic activities, we expect revenue to grow in strong double digits in FY2022. Moreover, GNA is expected to continue gaining market share in exports, driven by product quality, low-cost advantage, and financial distress of competitive players in export markets. Foray into the SUV business would also drive exports. Return ratios are expected to improve significantly, driven by demand improvement, minimal capex, and reduction in debt. Hence, we reiterate our Buy rating on GNA.

Key Risks

- ◆ GNA's revenue is heavily dependent on US and European markets; thus, it has risks associated to these countries. Moreover, revenue can be impacted by fluctuations in foreign exchange movements.
- ◆ If GNA is unable to pass on rising steel prices to its OEMs, this can impact its profitability.

Additional Data

Key management personnel

Mr Rachhpall Singh	Executive Chairman
Mr Gursaran Singh	Managing Director
Mr. Jasvinder Singh	Joint Managing Director
Mr Ranbir Singh	CEO & Whole time Director

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jasvinder Singh Seehra	15.3
2	Ranbir Singh	13.66
3	Gurdeep Singh	13.32
4	Cheema Gurdeep Singh	13.29
5	Jain Gaurav	12.55
6	Maninder Singh	11.37
7	Gursaran Singh	8.1
8	HDFC Asset Management Co	5.52
9	Mohinder Kaur	2.48
10	Sundram Alt Investment Fund	2.43

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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