



## 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

## Change

Reco: Buy	↔
CMP: Rs. 821	
Price Target: Rs. 948	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

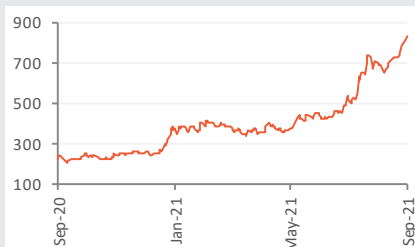
## Company details

Market cap:	Rs. 1,762 cr
52-week high/low:	Rs. 859 / 205
NSE volume: (No of shares)	2.34 lakh
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.70 cr

## Shareholding (%)

Promoters	67.5
FII	2.0
DII	10.1
Others	20.3

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	17.9	85.7	107.6	285.7
Relative to Sensex	10.8	74.0	92.1	232.0

Sharekhan Research, Bloomberg

## Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs. 948, factoring continuing traction in business outlook, upgrade in earnings, and better target multiples.
- GNA is well placed to benefit from sharp improvement in commercial vehicle sales across geographies and healthy outlook for the farm sector.
- GNA's earnings are likely to post a robust 38.6% CAGR from FY2021-FY2023E, driven by a 27.2% revenue CAGR and a 50 bps improvement in EBITDA margin.
- The stock trades at P/E multiple of 13x and EV/EBITDA multiple of 7.6x of its FY2023E estimates.

We maintain our Buy rating on GNA Axles Limited (GNA) with a revised price target (PT) of Rs. 948, led by continued growth momentum for the commercial vehicle (CV) segment in India, Europe and US and an upgrade in earnings estimates. The company is witnessing robust demand across geographies, product portfolio and clients, driven by strengthening business with existing clients, acquisition of new clients and foray into new segments. We expect GNA to be a beneficiary of strong growth outlook for truck sales in US and Europe markets. GNA is witnessing demand recovery in the export CV segment, which contributes about 40% to overall revenue. Both key markets of US (36.7% of revenue) and Europe (15.5% of revenue) are witnessing recovery in truck volumes. With the economy opening up post COVID-induced second wave restrictions, business activities have picked up substantially, resulting in sharp jump in domestic 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. The LCV segment is also expected to contribute to new revenue streams. 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 are expected to remain buoyant because of higher farm income and favourable monsoon this year. The domestic CV industry is also showing strong signs of recovery with the M&HCV segment leading the pack. Improvement in the M&HCV sub-segment has been phenomenal in the past few months and the sub-segment is expected to grow by 30-35% y-o-y in FY2022. Overall, we expect the tractor and commercial vehicle industries to report strong double-digit volume growth in FY2022E and FY2023E, the direct beneficiary of which would be GNA. The company has significant exposure to exports to ~55% revenue contribution and is well positioned to benefit from encouraging government schemes such as Atmanirbhar Bharat, Make in India and production-linked incentive (PLI) scheme. We expect GNA's earnings to post a robust 38.6% CAGR from FY2021-FY2023E, driven by a 27.2% revenue CAGR and a 50 bps improvement in EBITDA margin. We remain positive on GNA and retain our Buy rating on the stock with a revised PT of Rs. 948.

## Our Call

**Valuation - Maintain Buy with a revised PT of Rs. 948:** GNA is witnessing strong traction from domestic and global original equipment manufacturers (OEMs), driven by recovery in US's and Europe's CV market and India's tractor market. The outlook remains positive with strong recovery expected from FY2022E and FY2023E, driven by normalisation of economic activities. Operating profit margin (OPM) would expand due to operating leverage and cost-control measures. We have increased our earnings estimates for FY2022E and FY2023E by 1.4% and 9.4%, respectively, and introduced FY2024E estimates. The stock is trading at P/E multiple of 13x and EV/EBITDA multiple of 7.6x of its FY2023E estimates, which is slightly premium to long-term average multiples. We believe the premium valuation is justified, given upcycle in the domestic CV segment and healthy growth momentum in exports and farm segments. We retain our Buy rating on the stock with a revised PT of Rs. 948.

## Key risk

GNA's revenue is heavily dependent on US and European markets, so any material change in these markets can impact its revenue and profitability. Moreover, any significant increase in COVID cases may restrict movement and adversely impact our earnings estimates.

## Valuation (Consolidated)

	Rs cr			
Particulars	FY2021	FY2022E	FY2023E	FY2024E
Net Sales	890	1,173	1,440	1,670
Growth (%)	(2.1)	31.9	22.8	15.9
EBITDA	144	192	241	282
OPM (%)	16.2	16.4	16.7	16.9
Recurring PAT	71	103	136	166
Growth (%)	33.9	46.2	31.4	22.2
EPS (Rs )	32.9	48.1	63.2	77.2
PE (x)	25.0	17.1	13.0	10.6
P/BV (x)	3.5	2.9	2.5	2.0
EV/EBITDA (x)	13.2	9.7	7.6	6.2
ROE (%)	13.9	17.2	18.9	19.2
ROCE (%)	15.3	19.2	22.1	22.8

Source: Company; Sharekhan estimates

**Beneficiary of improving outlook for CV business in US and Europe:** GNA is expected to be a beneficiary of strong growth outlook for truck sales in US and Europe markets. GNA is witnessing demand recovery in the export CV segment, which contributes about 40% to overall revenue. Both key markets of US (36.7% of revenue) and Europe (15.5% of revenue) are witnessing recovery in truck volumes. Truck sales in both US and Europe have almost reached February 2020 levels (pre-COVID levels). Moreover, USA Class 8 truck segment orders have been improving continuously. Preliminary NA Class 8 net orders in August 2021 were 36,900 units (up 43% m-o-m), while NA Classes 5-7 net orders jumped to 31,900 units (up 5.6% m-o-m), both representing five-month high readings. CV demand is expected to remain strong, limited to chips shortage issue. CV registrations in EU markets increased by 12.4% y-o-y to 185,573 units in June 2021. All vehicle segments made a positive contribution to the previous month's growth. Demand was largely driven by Central European countries (up 43.4% y-o-y), while only two of the four key Western European markets showed positive results – Germany (up 28.5% y-o-y) and Italy (up 5.3% y-o-y). We expect GNA to be a key beneficiary of the rise in truck demand in the US and Europe.

**GNA to continue to gain market share in CV exports:** GNA has started making inroads into the SUV and LCV axle shaft segment with initial capacity of 5,00,000 units, which could be increased depending on market demand. GNA is targeting clients from North America, Europe and India in that order. GNA's CV export business has grown strongly with the company outpacing the industry. The export business registered a strong 27% CAGR over FY2016-FY2020. This compares with a 5-6% CAGR for the CV industry (both European and US) during the same period. Based on established product quality and reliability and low-cost advantage, GNA has been successful in securing additional business from existing clients. Moreover, existing suppliers in these regions are shutting down capacities on account of financial distress, cost pressures, and technological upgradation challenges. This provides growth opportunity for domestic Tier-2 players such as GNA to increase their wallet share with customers. We believe GNA would continue to outpace the CV industry's exports.

**SUV and LCV segments to provide incremental growth opportunity:** GNA's foray into the 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) who are already in the SUV business. GNA has established a strong relationship with CV customers over the years of services to OEMs; and with established quality and relatively low-cost advantage, the company is expecting order wins for the SUV segment. GNA has invested about Rs. 60 crore in plant and machinery for the SUV segment and is expected to receive orders from FY2022. Entry into the SUV segment would not only provide an additional growth avenue but will also de-risk its business model by reducing the cyclicity of the CV segment. Further, the company plans to move into the domestic SUV segment in the second phase.

**Dominant market shares in making axle shafts and spindles for domestic CV and tractor OEMs:** 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 are expected to remain buoyant because higher farm income, healthy rural income, and favourable monsoon this year. The domestic CV industry is also showing strong signs of recovery with the M&HCV segment leading the pack. Improvement in the M&HCV sub-segment has been phenomenal in the past few months and the sub-segment is expected to grow by 30-35% y-o-y in FY2022. Overall, we expect the tractor and CV industries to report strong double-digit volume growth in FY2022E and FY2023E, the direct beneficiary of which would be GNA. We have witnessed sales improvement in certain categories of M&HCV segments, led by increased activities in infrastructure, mining, and e-commerce sectors.

**Management expectations:** Management expects FY2022 to be a strong year, with overall revenue to grow by 30-35%, driven by robust export markets and recovery in domestic markets. The company is currently

operating at 70-75% capacity utilisation and does not plan any major capex in the medium term. The company will prefer to increase capacity by ~10% through debottlenecking.

**Earnings upgrade:** Boosted by strong business outlook, we have increased our earnings estimates by 1.4%/9.4% for FY2022E/FY2023E, respectively, driven by volume growth. As a result, GNA's earnings are expected to grow by robust 38.6% CAGR from FY2021-FY2023E, driven by a 27.2% revenue CAGR and a 50 bps improvement in EBITDA margin. We have introduced FY2024E estimates.

Change in estimates

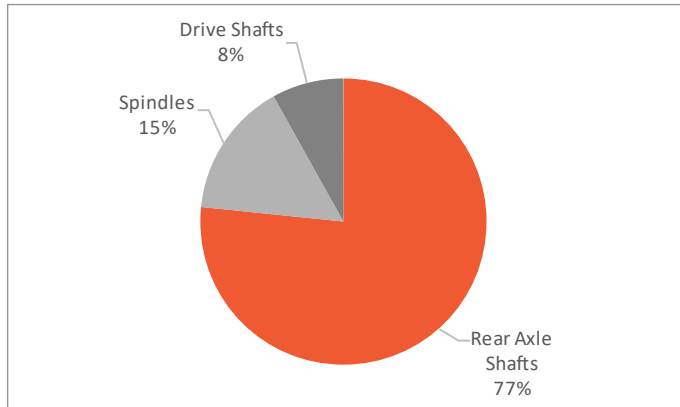
Rs cr

Particulars	Revised		Earlier		% Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	1,173	1,440	1,162	1,355	1.0	6.3
EBITDA	192	241	191	225	1.0	6.9
EBITDA margin	16.4	16.7	16.4	16.6	-	10 bps
PAT	103	136	102	124	1.4	9.4
EPS	48.1	63.2	47.5	57.8	1.4	9.4

Source: Company; Sharekhan Research

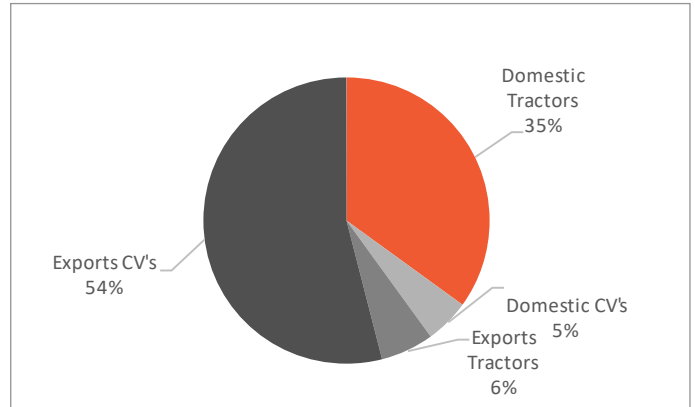
## Financials in charts

### Product-wise Revenue Mix (%)



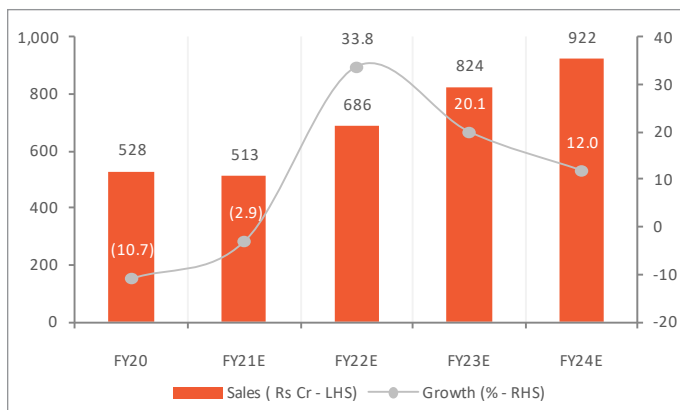
Source: Company, Sharekhan Research

### Segmental Mix (%)



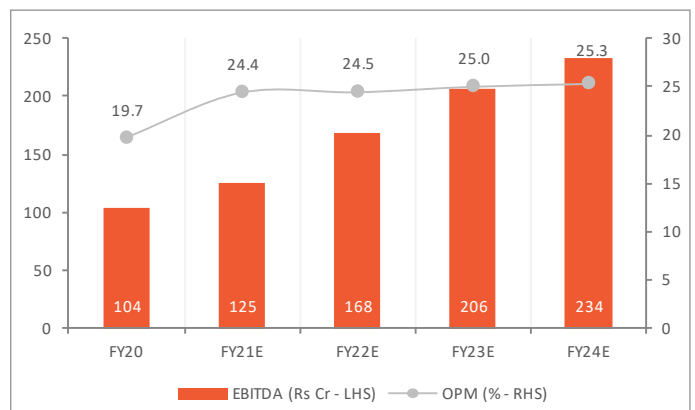
Source: Company, Sharekhan Research

### Revenue and Growth Trend



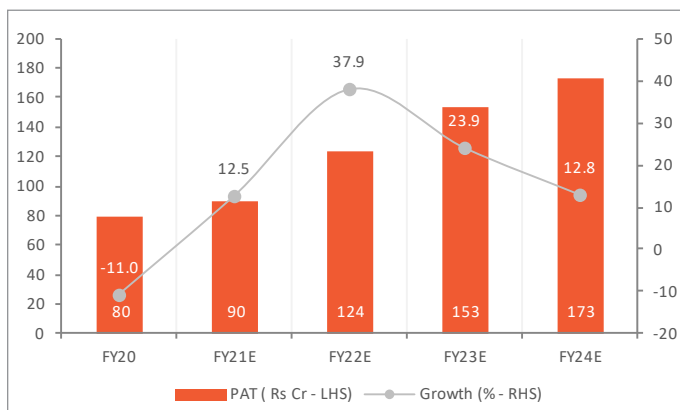
Source: Company, Sharekhan Research

### EBITDA and OPM Trend



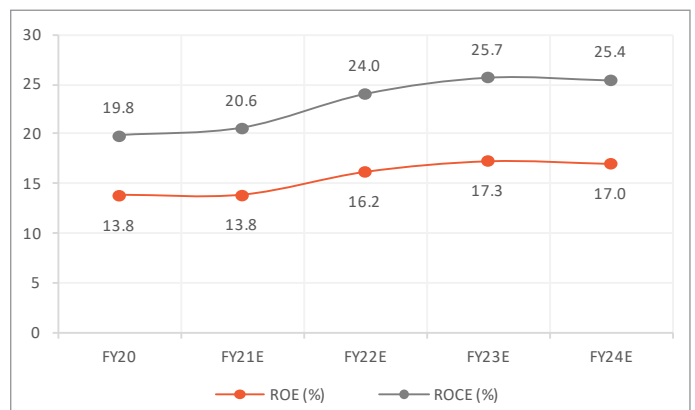
Source: Company, Sharekhan Research

### PAT and Growth Trend



Source: Company, Sharekhan Research

### Return Ratios Trend



Source: Company, Sharekhan Research

## Outlook and Valuation

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

We see strong underlying CV demand domestically. Lockdowns and restrictions posed by state governments due to the sudden spike in COVID cases in wave-2 had hit footfalls and retail sales. The situation is normalising from July. We expect strong improvement in M&HCV sales to continue, driven by rise in e-commerce, agriculture, infrastructure, and mining activities. Global demand for trucks is buoyant, aided by increasing traction in class 8 truck order books. Freight economy continues to enjoy broad-based strength, evident in freight rates that have remained at or near record levels for months. While demand remains stronger for both medium and heavy-duty vehicles, the industry's ability to tackle that backlog has been affected by a series of issues such as chip shortages, steel output, and plastic resin availability. Most global OEMs and auto component suppliers maintain a positive outlook for the CV industry. Moreover, domestic tractor markets are expected to remain buoyant because of higher farm income and favourable monsoon this year.

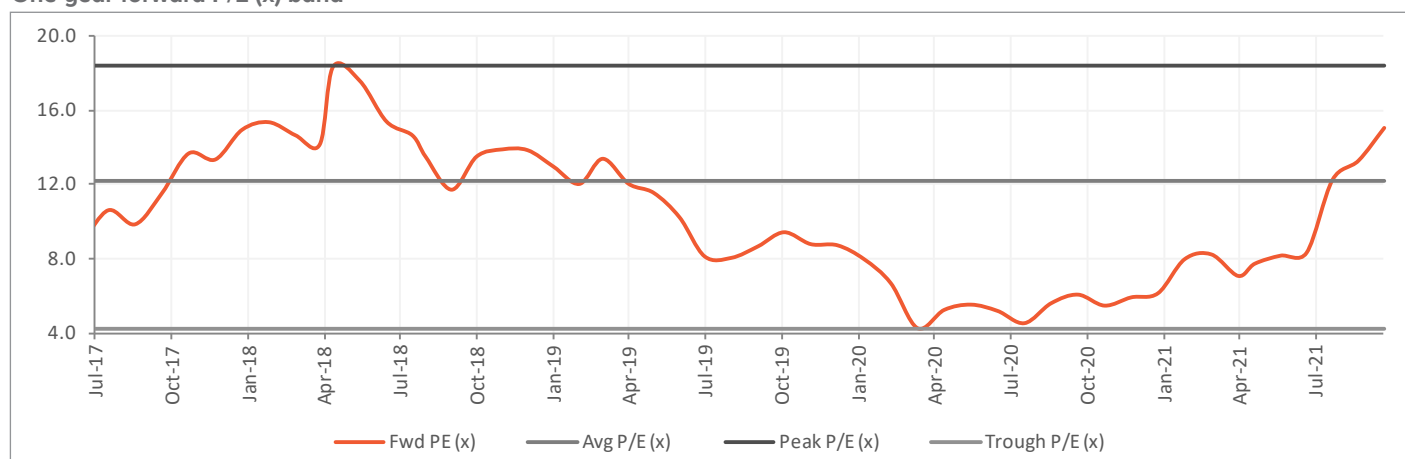
### ■ Company Outlook – Strong earnings growth

We expect GNA to benefit from the CV upcycle across geographies – India, North America, and Europe, led by improved prospects of CV globally. Global OEMs and tier-1 suppliers maintain a positive outlook for the CV segment. 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 post a robust 38.6% CAGR from FY2021-FY2023E, driven by a 27.2% revenue CAGR and a 50 bps improvement in EBITDA margin.

### ■ Valuation – Maintain Buy with a revised PT of Rs. 948

GNA is witnessing strong traction from domestic and global OEMs, driven by recovery in US's and Europe's CV market and India's tractor markets. The outlook remains positive with strong recovery expected from FY2022E and FY2023E, driven by normalisation of economic activities. OPM would expand due to operating leverage and cost-control measures. We have increased our earnings estimates for FY2022E and FY2023E by 1.4% and 9.4%, respectively, and introduced FY2024E estimates. The stock is trading at P/E multiple of 13x and EV/EBITDA multiple of 7.6x of its FY2023E estimates, which is slightly premium to long-term average multiples. We believe the premium valuation is justified given upcycle in the domestic CV segment and healthy growth momentum in exports and farm segments. We retain our Buy rating on the stock with a revised PT of Rs. 948.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Company	CMP (Rs.)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
GNA Axles	821	25.0	17.1	13.0	13.2	9.7	7.6	15.3	19.2	22.1
Gabriel India	147	37.2	20.1	15.9	17.5	11.1	8.8	11.8	17.8	20.0
Greaves Cotton	148	218.2	27.6	18.3	40.2	15.4	11.0	3.8	23.7	32.9
Mayur Uniquoters	477	24.3	17.6	14.2	15.3	11.0	8.6	20.6	24.0	25.7

Source: Company, Sharekhan estimates

## 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. The company has full-fledged equipment such as tooling, machining, and forging systems.

## 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 FY2021. Increased kharif sowing and good monsoons 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 over the past three quarters, 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, so any material change in these markets can impact its revenue and profitability.
- ♦ The reoccurrence of COVID pandemic in India may put restriction on movement and can adversely impact our earnings estimates for the company.
- ♦ If GNA is unable to pass on rising steel prices to its OEMs, it can impact its profitability.

## Additional Data

### Key management personnel

Mr Gursaran Singh	Executive Chairman
Mr. Jasvinder Singh	Executive Vice Chairman
Mr Ranbir Singh	CEO & Whole time Director
Mr Maninder Singh	Additional Director
Mr Rakesh Kumar Gupta	Chief Financial Officer

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jasvinder Singh Seehra	15.3
2	Ranbir Singh	14.9
3	Gurdeep Singh	14.6
4	Maninder Singh	11.4
5	Gursaran Singh	8.1
6	HDFC Asset Management Co	6.1
7	Sundaram Mutual Fund	2.0
8	IDFC Emerging Business	1.5
9	Kuwin Seehra	1.0
10	Keerat Seehra	1.0

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



# Sharekhan

by BNP PARIBAS

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