



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	✓	↔	✓

Company details

Market cap:	Rs. 1,123 cr
52-week high/low:	Rs. 762 / 445
NSE volume: (No of shares)	38.5 lakh
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.69 cr

Shareholding (%) as on 31-12-2021

Promoters	67.9
FII	0.6
DII	8.8
Others	22.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.2	-2.8	-44.1	34.4
Relative to Sensex	6.1	-2.0	-37.3	16.4

Sharekhan Research, Bloomberg

GNA Axles Ltd

Weak Q4, valuation attractive

Automobiles	Sharekhan code: GNA		
Reco/View: Buy	↔	CMP: Rs. 523	Price Target: Rs. 652
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs. 652, led by a positive CV and farm sector outlook and an attractive valuation.
- GNA's EBITDA margin expanded 40 bps q-o-q to 13.2% in Q4FY22, led by cost reductions partially offset by rise in raw material costs.
- GNA's growth prospects remain positive, as class 8 truck sales are showing signs of recovery. Q4 sales were impacted by slower growth US class 3-8 truck sales.
- The stock is trading below its historical average multiples at P/E of 8x and EV/EBITDA of 4.5x of its FY2024E estimates.

GNA Axles Limited (GNA) posted broadly in-line performance in Q4FY2022. Net sales declined 3.1% y-o-y and -0.3% q-o-q to Rs300.5 crore, led by a weak class 3-8 truck sales (led by supply constraints) and muted growth in the tractor segment. The EBITDA margin expanded 40 bps q-o-q to 13.2% in Q4, led by cost reductions partially offset by a rise in raw material costs. The company reported a PAT of Rs18.1 crore in Q4FY22, which is a decline of 34.4% y-o-y and an increase of 8.6% q-o-q. We maintain our positive stance on the company and expect revenues and profitability to normalize from Q2FY23 onwards, driven by the improvement in US and Europe truck sales. The company has exposure to domestic tractors and CV markets, which are expected to remain buoyant going forward. We expect GNA to grow at a faster pace than the industry, given the company's focus on increasing business with the existing clients and the acquisition of new clients. The stock price has corrected 23%YTD and is available at comfortable valuations. At valuations of P/E of 8.2x and EV/EBITDA of 4.5x of its FY2024E estimates, we retain our Buy rating on the stock.

Key Positives

- EBITDA margin expanded 40 bps q-o-q to 13.2% in Q4FY22, led by cost reductions partially offset by the rise in raw material costs.

Key Negatives

- The company's revenue was impacted by weak class 8 truck sales, led by supply constraints, and muted growth in the domestic tractor segment (due to a high base).
- Rise in raw material prices lead to a decline of 30bps q-o-q and 170 bps y-o-y in gross margins to 34.7% in Q4.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.652: GNA is expected to witness strong traction from domestic and global original equipment manufacturers (OEMs), driven by a recovery in US's and Europe's CV market and India's tractor market. The outlook remains positive with recovery expected from FY2023E and FY2024E, driven by the normalisation of economic activities. Operating profit margin (OPM) would expand due to operating leverage and cost-control measures. The stock price has corrected 23%YTD and is available at comfortable valuations. At valuations of P/E of 8x and EV/EBITDA of 4.5x of its FY2024E estimates, we retain our Buy rating on the stock.

Key Risks

GNA's revenue is heavily dependent on the US and European markets, so any material change in these markets can impact its revenue and profitability. Moreover, any rise in the COVID pandemic either domestically or globally may restrict movement and adversely impact our earnings estimates.

Valuation (consolidated)

Particulars	FY2021	FY2022	FY2023E	FY2024E
Net Sales	890	1,270	1,418	1,567
Growth (%)	(2.1)	42.8	11.6	10.5
EBITDA	144	181	217	251
OPM (%)	16.2	14.2	15.3	16.0
Recurring PAT	71	89	115	140
Growth (%)	33.9	25.7	30.1	21.2
EPS (Rs)	32.9	41.3	53.8	65.2
PE (x)	15.9	12.7	9.7	8.0
P/BV (x)	2.2	1.9	1.6	1.4
EV/EBITDA (x)	8.7	7.1	5.6	4.5
ROE (%)	13.9	15.1	16.8	17.2
ROCE (%)	15.3	17.4	19.9	20.7

Source: Company; Sharekhan estimates

Weak performance in Q4FY22: GNA Axles Limited (GNA) posted broadly in-line performance in Q4FY2022. Net sales declined 3.1% y-o-y and -0.3% q-o-q to Rs300.5 crore, led by weak class 3-8 truck sales (led by supply constraints) and muted growth in the tractor segment. The EBITDA margin expanded 40 bps q-o-q to 13.2% in Q4, led by cost reductions partially offset by rising in raw material costs. The rise in raw material prices led to a decline of 30bps q-o-q and 170 bps y-o-y in gross margins to 34.7% in Q4. The EBITDA declined 20.1% y-o-y and 20.5% q-o-q to Rs38.5 crore. The company reported a PAT of Rs18.1 crore in Q4FY22, which is a decline of 34.4% y-o-y and an increase of 8.6% q-o-q.

Management expectations: The management has met its target to grow more than 35% in revenues during FY22, though the margins decline by 200 bps in FY22 to 14.2%. 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.

GNA to continue to gain market share in CV exports: GNA's CV export business has grown strongly with the company growth outpacing the industry. The export business registered a strong 27% CAGR over FY2016-FY2020.

SUV segment 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. 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.

Maintain positive view on the company: We maintain our positive stance on the company and expect revenues and profitability to normalise from Q2FY23 onwards, driven by improvement in US and Europe truck sales. The company has exposure to domestic tractors and CV markets, which are expected to remain buoyant going forward. We have fine-tuned our earnings estimate to build the impact of near-term supply challenges in the global CV market. We expect the GNA to grow at a faster pace than the industry, given the company's focus on increasing business with the existing clients and the acquisition of new clients. GNA's earnings are likely to post a robust 25.6% CAGR from FY2022-FY2024E, driven by an 11.1% revenue CAGR and sustainable EBITDA margins of ~ 16%.

Results (Consolidated)

Particulars	Q4FY22	Q4FY21	%YoY	Q3FY22	%QoQ
Revenues	300.5	310.1	-3.1	301.3	-0.3
Total Expenses	260.9	261.7	-0.3	262.8	-0.7
EBIDTA	39.6	48.4	-18.2	38.5	2.8
Depreciation	12.7	10.2	24.2	12.6	0.3
Interest	2.4	1.4	67.1	2.8	-13.7
Other Income	0.0	0.6	-98.2	0.0	#DIV/0!
PBT	24.5	37.3	-34.3	23.1	6.1
Tax	6.4	9.7	-33.8	6.4	-0.2
Adjusted PAT	18.1	27.6	-34.4	16.7	8.6
EPS	8.4	12.9	-34.4	7.8	8.6

Source: Company Data; Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q4FY22	Q4FY21	YoY (bps)	Q3FY22	QoQ (bps)
Gross margin (%)	34.7	36.4	(170)	35.0	(30)
EBIDTA margin (%)	13.2	15.6	(240)	12.8	40
EBIT margin (%)	9.0	12.3	(340)	8.6	40
Net profit margin (%)	6.0	8.9	(290)	5.5	50
Effective tax rate (%)	26.1	26.0	20	27.8	(170)

Source: Company Data; Sharekhan Research

Outlook and Valuation

■ Sector View – Buoyant demand for CV and farm sector

We see strong underlying demand for CVs domestically. We expect the recovery in the CV segment in FY2023E and FY2023E, driven by improved economic activities, a low-interest rate regime, and better financing availability. We expect strong improvement in M&HCV sales to continue, driven by the rise in e-commerce, agriculture, infrastructure, and mining activities. Global demand for trucks is expected to recover, aided by increasing traction in class 8 truck order books. 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, good Rabi harvesting, and the expectation of a strong monsoon this year.

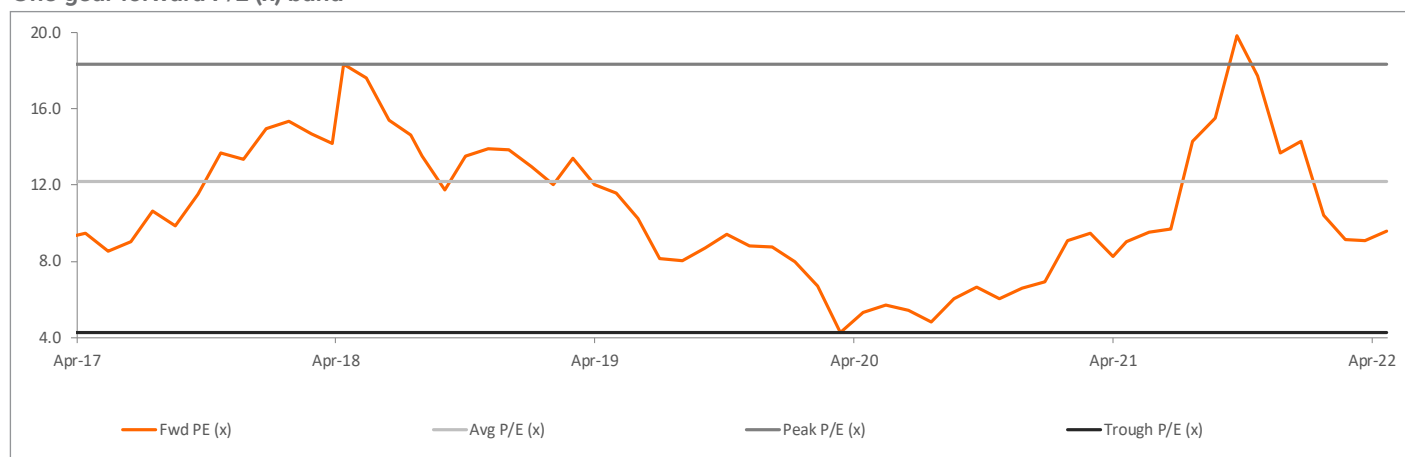
■ Company Outlook – Positive

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 its comparatively low-cost advantage. The company has been winning higher business from clients, driven by establishing product reliability and quality. Moreover, a foray into SUVs provides an incremental growth opportunity for GNA. The company would supply to existing export CV customers who also manufacture SUVs. The company has 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 33.9% CAGR from FY2022-FY2024E, driven by a 15.9% revenue CAGR and sustainable EBITDA margins of ~ 16%.

■ Valuation – Maintain Buy a revised PT of Rs.652:

GNA is expected to witness strong traction from domestic and global original equipment manufacturers (OEMs), driven by the recovery in US's and Europe's CV market and India's tractor market. The outlook remains positive with recovery expected from FY2023E and FY2024E, driven by the normalisation of economic activities. Operating profit margin (OPM) would expand due to operating leverage and cost-control measures. The stock price has corrected 23%YTD and is available at comfortable valuations. At valuations of P/E of 8x and EV/EBITDA of 4.5x of its FY2024E estimates, we retain our Buy rating on the stock.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP (Rs / Share)	P/E (x)			EV/EBITDA (x)			RoCE (%)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
GNA Axles	523	15.9	12.7	9.7	8.7	7.1	5.6	15.3	17.4	19.9
Gabriel India	120	31.7	17.1	13.5	14.7	9.3	7.3	11.8	17.8	20.0
Greaves Cotton	169	249.2	NA	43.3	46.3	98.8	23.0	3.8	NA	11.5

Source: Company Data; Sharekhan Research

About the 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 the 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 export 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 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 the 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 a strong recovery in truck demand going ahead. With the 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 in India may put a 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

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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