



## 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. 1,432 cr
52-week high/low:	Rs. 1,107 / 435
NSE volume: (No of shares)	77,344
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.69 cr

## Shareholding (%) as on Jun 30, 2022

Promoters	67.9
FII	0.5
DII	9.8
Others	21.8

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	19.7	30.3	16.3	-5.2
Relative to Sensex	7.9	17.3	14.2	-14.9

Sharekhan Research, Bloomberg

## GNA Axles Ltd

## Q1 results beat expectation, valuation attractive

## Automobiles

## Sharekhan code: GNA

Reco/View: Buy



CMP: Rs. 667

Price Target: Rs. 800



Upgrade



Maintain



Downgrade

## Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs.800, led by a positive CV and farm sector outlook and an attractive valuation.
- Q1FY23 results exceeded expectations on higher sales, leading to upbeat revenue, EBITDA, and PAT by 20.1%, 23.6% and 39.3% respectively.
- GNA's growth prospects remain positive, led by strong momentum in CV and farm sector sales in India and globally.
- The stock is trading below its historical average multiples at P/E of 10x and EV/EBITDA of 5.7x of its FY2024E estimates.

GNA Axles Limited's (GNA's) Q1FY23 results exceeded expectations on higher sales, leading to upbeat revenue, EBITDA and PAT by 20.1%, 23.6% and 39.3% respectively. Net revenues were up 24.9% q-o-q to Rs375 crore, led by increased domestic and export sales. The EBITDA margin expanded 30bps q-o-q to 13.5%, driven by cost reductions and positive operating leverage, despite significant inflation in raw material costs. As a result, EBITDA and PAT grew by 27.8% q-o-q and 49.2% q-o-q to Rs50.5 crore and Rs27 crore respectively in Q1FY23. We maintain our positive stance on the company and expect revenues and profitability to normalize gradually going forward, driven by the improvement in US and Europe truck sales. The company has an 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 is trading below its historical average multiples at P/E of 10x and EV/EBITDA of 5.7x its FY2024E estimates.

## Key positives

- Q1FY23 results exceeded expectations on higher sales, leading to upbeat revenue, EBITDA and PAT by 20.1%, 23.6% and 39.3% respectively.
- EBITDA margin expanded 30bps q-o-q to 13.5%, driven by cost reductions and positive operating leverage, despite significant inflation in raw material costs.

## Key negatives

- The company's revenue was impacted by muted performance of class 8 truck sales in Q1FY23, led by supply constraints, and muted growth in the domestic tractor segment (due to a high base).

## Our Call

**Valuation - Maintain Buy with a revised PT of Rs800:** 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 is available at attractive valuations at 10x P/E and 5.7x EV/EBITDA its FY2024E estimates.

## 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)

	Rs cr			
Particulars	FY2021	FY2022	FY2023E	FY2024E
Net Sales	890	1,270	1,443	1,594
Growth (%)	(2.1)	42.8	13.6	10.4
EBIDTA	144	181	221	255
OPM (%)	16.2	14.2	15.3	16.0
Recurring PAT	71	89	118	143
Growth (%)	33.9	25.7	33.3	21.0
EPS (Rs )	32.9	41.3	55.1	66.7
PE (x)	20.3	16.1	12.1	10.0
P/BV (x)	2.8	2.4	2.1	1.8
EV/EBIDTA (x)	10.9	8.8	6.9	5.7
ROE (%)	13.9	15.1	17.1	17.5
ROCE (%)	15.3	17.4	20.3	21.0

Source: Company; Sharekhan estimates

**Strong performance in Q1FY23:** 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 Rs 300.5 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 declined by 200 bps in FY22 to 14.2%. The company is currently operating at 75-80% capacity utilisation and does not plan any major Capex in the medium term. The company will prefer to increase capacity by ~10% through debottlenecking.

**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 27% CAGR from FY2022-FY2024E, driven by an 12% revenue CAGR and a 180bps improvement in EBITDA margin at 16% in FY24E.

#### Results (Consolidated)

Particulars	Q1FY23	Q1FY22	%YoY	Q4FY22	%QoQ
Revenues	375.2	329.0	14.1	300.5	24.9
Total Expenses	324.6	274.5	18.3	260.9	24.4
EBIDTA	50.5	54.5	(7.2)	39.6	27.8
Depreciation	11.5	11.8	(2.6)	12.7	(8.8)
Interest	3.0	3.1	(4.8)	2.4	23.8
Other Income	0.4	0.5	(24.5)	0.0	NA
PBT	36.4	40.0	(9.0)	24.5	48.5
Tax	9.4	10.6	(10.9)	6.4	46.6
Adjusted PAT	27.0	29.5	(8.3)	18.1	49.2
EPS	12.6	13.7	(8.3)	8.4	49.2

Source: Company Data; Sharekhan Research

#### Key Ratios (Consolidated)

Particulars	Q1FY23	Q1FY22	YoY (bps)	Q4FY22	QoQ (bps)
Gross margin (%)	31.2	34.5	(340)	34.7	(350)
EBIDTA margin (%)	13.5	16.6	(310)	13.2	30
EBIT margin (%)	10.4	13.0	(260)	9.0	140
Net profit margin (%)	7.2	9.0	(180)	6.0	120
Effective tax rate (%)	25.8	26.4	(60)	26.1	(30)

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 FY2024E, driven by improved economic activities, a low-interest rate regime, and better financing availability. We expect a 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.

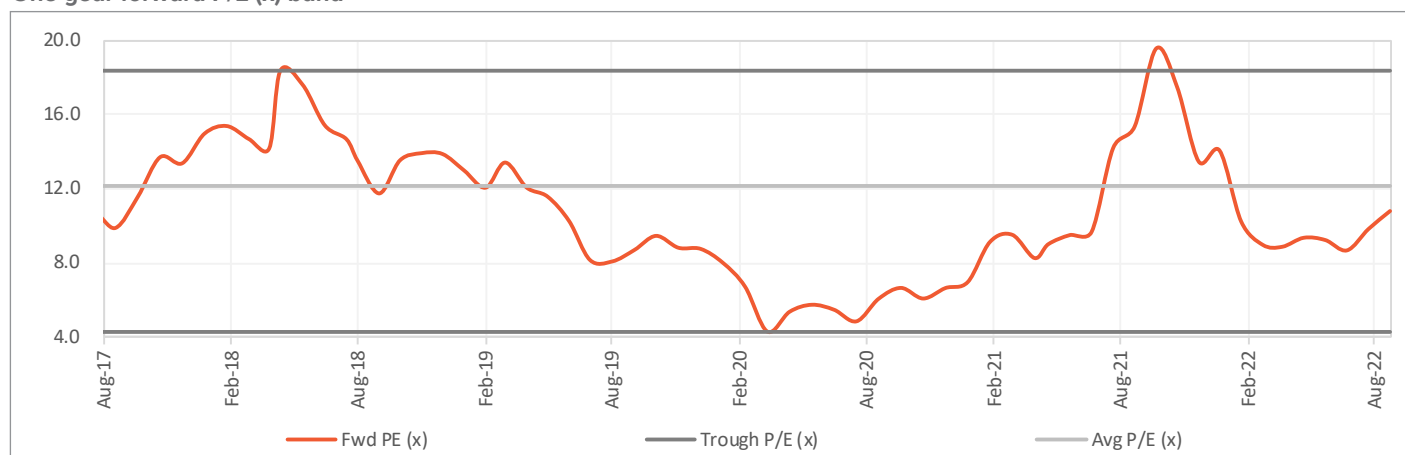
### ■ Company Outlook – Positive

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 are likely to post a robust 27% CAGR from FY2022-FY2024E, driven by an 12% revenue CAGR and a 180bps improvement in EBITDA margin at 16% in FY24E.

### ■ Valuation – Maintain Buy with a revised PT of Rs.800

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 is available at attractive valuations at 10x P/E and 5.7x EV/EBITDA its FY2024E estimates.

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



Source: Sharekhan Research

#### Peer Comparison

Particulars	CMP (Rs / Share)	P/E (x)			EV/EBITDA (x)			RoCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GNA Axles	667	16.1	12.1	10.0	8.8	6.9	5.7	17.4	20.3	21.0
Gabriel India	145	23.3	15.6	12.0	13.2	9.0	6.8	16.8	22.0	25.0
Greaves Cotton	176	NA	54.3	28.8	141.5	22.6	13.6	-	-	5.3

Source: Company Data; 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 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. With the normalization of economic activities, we expect revenue to grow in strong double digits in FY2023. 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.
- ♦ 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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