



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. 1,655 cr
52-week high/low:	Rs. 775 / 435
NSE volume: (No of shares)	67,496
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.69 cr

Shareholding (%)

Promoters	68.1
FII	0.02
DII	11.1
Others	20.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.0	14.2	29.4	43.2
Relative to Sensex	17.6	16.2	23.2	40.3

Sharekhan Research, Bloomberg

GNA Axles Ltd

Positive business outlook; Attractive valuation

Automobiles

Sharekhan code: GNA

Reco/View: Buy



CMP: Rs. 772

Price Target: Rs. 930



Upgrade



Maintain



Downgrade

Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with an upward revised PT of Rs. 930, led by a positive outlook for the CV and farm sectors and an attractive valuation.
- Q3FY2023 performance was above expectations as Revenue, EBITDA, and PAT were 4.7%, 13.0% and 8.4% ahead of estimates respectively.
- GNA's growth prospects remain positive, led by strong momentum in the CV and farm sector sales in India and globally.
- The stock is trading at P/E of 10x and EV/EBITDA of 5.4x its FY2025E estimates.

GNA Axles (GNA) reported Q3FY2023 performance ahead of estimates as Revenue, EBITDA and PAT were 4.7%, 13.0% and 8.4% ahead of estimates, respectively. Revenue increased by 34.2% y-o-y to Rs 404.2 cr, and EBITDA increased by 63.2% y-o-y to Rs 62.8 cr. However, the gross margin contracted by 30 bps y-o-y, the EBITDA margin expanded by 280 bps y-o-y to 15.5% due to better cost control management. This was the consecutive 4th quarter when GNA registered sequentially expansion in EBITDA margin. Strong revenue performance in 9MFY2023 was supported by double-digit growth in both of its CV and farm segment. With 10% y-o-y growth in export revenue and a 44% growth in domestic revenue, the total sales in 9MFY2023 grew by 24% y-o-y. Domestic and export revenue mix stood at 53% and 47% respectively in 9MFY2023. GNA has been witnessing strong growth in North American and Asian markets and assuming a stable outlook for exports in the medium term. We believe that healthy traction in North American US class 8 truck segments, upcycle in the domestic CV segment, and consistent performance in domestic tractor segment would drive its performance in the medium term. The stock is trading at P/E of 10x and EV/EBITDA of 5.4x its FY2025E. We maintain our Buy rating on the stock with upward revised TP of Rs930.

Key positives

- Reported performance in Q3FY2023 was above estimates as the Revenue, EBITDA and PAT beat our estimates by 4.7%, 13.0% and 8.4%, respectively.
- EBITDA margin expanded by 208 bps y-o-y and 120 bps q-o-q on account of operating leverage and better cost control management.
- Effective tax rate stood at 25.8% in Q3FY2023 compared to 27.8% in Q3FY2022.

Key negatives

- Gross margin contracted by 30 bps y-o-y and 110 bps q-o-q
- GNA's performance in the European market is weaker in comparison to its performance in North American and Asian markets.

Revision in estimates – We have conservatively estimated mere 4.8% and 6.8% increase in topline for FY2024E and FY2025E in the assumption that GNA would have to pass on correction in RM cost to the customers, while RM cost benefit would reflect in improvement in EBITDA margin. Post factoring the Q3FY2023 performance, our earnings estimate for FY2023, FY2024 and FY2025 has revised upwards by 7.9%, 6.8% and 5.3%, respectively.

Our Call

Valuation – Maintain Buy with an upward revised PT of Rs.930: Despite gross margin contraction GNA has registered healthy operating performance in Q3FY2023 due to operating leverage and cost control measures. We believe that current operating performance is largely sustainable as a complete benefit of correction in raw material cost has yet to be factored in. GNA is expected to witness strong traction from domestic and global original equipment manufacturers (OEMs), driven by healthy traction in North American US class 8 truck segments, upcycle in the domestic CV segment and consistent performance in the domestic tractor segment. Going forward, the management has shared a stable outlook for its export business in the medium term. The stock is trading at P/E of 10x and EV/EBITDA of 5.4x its FY2025E. We maintain our Buy rating on the stock with an upward revised TP of Rs930.

Key Risks

GNA's revenue heavily depends on the US and European markets, so any material change in these markets can impact its revenue and profitability.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	889.6	1270.5	1598.1	1674.9	1789.5
Growth (%)	-2.1	42.8	25.8	4.8	6.8
EBITDA	143.8	180.9	233.3	268.0	288.1
OPM (%)	16.2	14.2	14.6	16.0	16.1
Recurring PAT	70.6	88.8	127.7	152.8	166.4
Growth (%)	33.9	25.7	43.9	19.7	8.8
EPS (Rs.)	32.9	41.3	59.5	71.2	77.5
PE (x)	23.6	18.7	13.0	10.9	10.0
P/BV (x)	3.3	2.8	2.4	2.0	1.7
EV/EBITDA (x)	12.5	10.1	7.8	6.3	5.4
ROE (%)	13.9	15.1	18.3	18.3	17.0
ROCE (%)	15.3	17.4	21.5	22.0	20.7

Source: Company; Sharekhan estimates

Robust performance in Q3FY2023: GNA's Q3FY2023 results exceeded expectations on higher sales, leading to upbeat revenue, EBITDA, and PAT by 4.7%, 13.0%, and 8.4%, respectively. Net revenue increased 34.2% y-o-y to Rs. 404.2 crores, led by healthy traction in domestic and export sales. EBITDA margin expanded by 280bps y-o-y to 15.5%, driven by operating leverage and cost reductions. This was the consecutive 4th quarter when GNA has registered sequentially expansion in EBITDA margin. As a result, PAT improved by 114.5% y-o-y to Rs 35.8 cr.

SUV segment to provide incremental growth opportunity: GNA's foray into the SUV segment would act as an incremental growth driver. GNA would supply SUV axle shafts to its existing CV customers (in export markets) 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.

Stable outlook for exports: The company is assumed to be operating at more than 80% capacity utilisation and has not announced a plan for major capex in the medium term. We believe that the GNA can increase its capacity by ~10% through debottlenecking. Further, the management is sharing a stable outlook for exports in the medium term.

Results (Consolidated)

Particulars	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %
Revenues	404.2	301.3	34.2	419.7	(3.7)
Total Expenses	341.4	262.8	29.9	359.7	(5.1)
EBIDTA	62.8	38.5	63.2	60.0	4.6
Depreciation	12.2	12.6	(3.6)	12.7	(4.1)
Interest	2.9	2.8	3.0	2.9	(1.7)
Other Income	0.4	0.0	NA	0.2	87.5
PBT	48.2	23.1	108.7	44.7	7.9
Tax	12.4	6.4	93.5	11.3	10.0
Adjusted PAT	35.8	16.7	114.5	33.4	7.2
EPS (Rs.)	16.7	7.8	114.5	15.6	7.2

Source: Company, Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q3FY23	Q3FY22	YoY %	Q2FY23	QoQ %
Gross margin (%)	34.7	35.0	(30)	35.8	(110)
EBIDTA margin (%)	15.5	12.8	280	14.3	120
EBIT margin (%)	12.5	8.6	390	11.3	120
Net profit margin (%)	8.9	5.5	330	8.0	90
Effective tax rate (%)	25.8	27.8	(200)	25.3	50

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Buoyant demand for the CV and farm sectors

We see strong underlying demand for CVs domestically. We expect a recovery in the CV segment in FY2024E and FY2025E, driven by improved economic activities and better financing availability. We expect strong improvement in M&HCV sales to continue, driven by a 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, aided by strong rural sentiments.

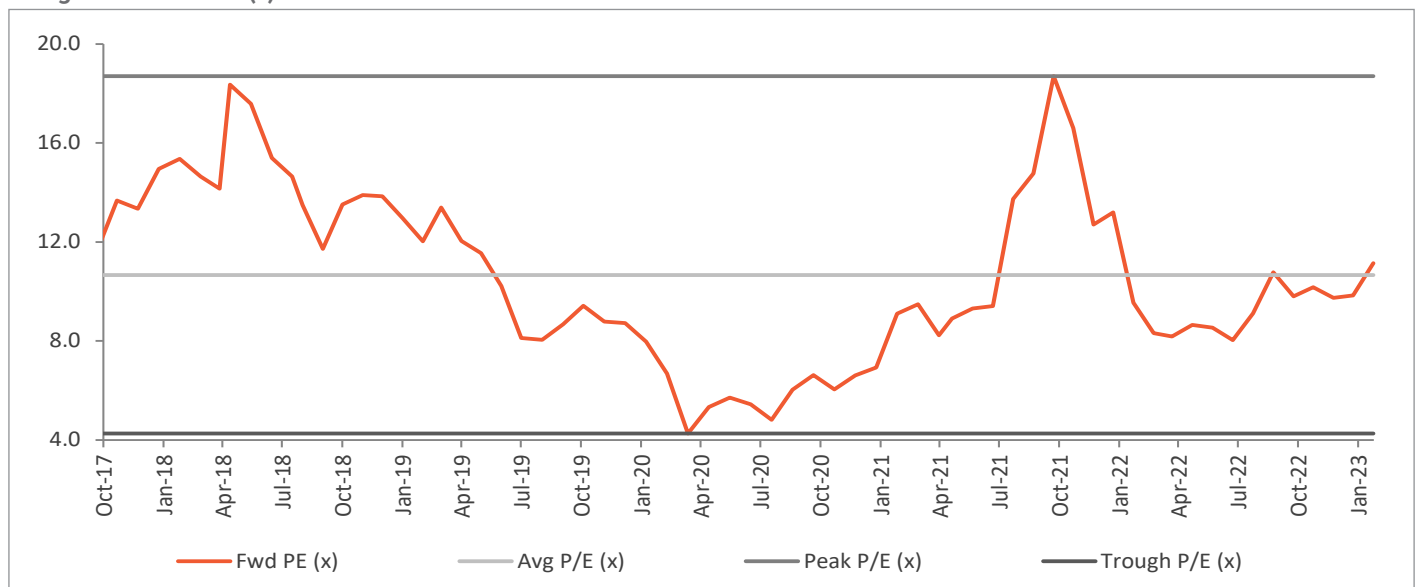
■ Company outlook - Positive

We expect GNA to benefit from the CV upcycle across geographies – India, North America, and Europe, led by improving prospects of CV globally. Global OEMs and tier-1 suppliers maintain a positive outlook for the CV segment. GNA has gained 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.

■ Valuation - Maintain Buy with an upward revised PT of Rs.930

Despite gross margin contraction GNA has registered healthy operating performance in Q3FY2023 due to operating leverage and cost control measures. We believe current operating performance is largely sustainable as a complete benefit of correction in raw material cost has yet to be factored in. GNA is expected to witness strong traction from domestic and global original equipment manufacturers (OEMs), driven by healthy traction in North American US class 8 truck segments, upcycle in the domestic CV segment and consistent performance in the domestic tractor segment. Going forward, the management has shared a stable outlook for its export business in the medium term. The stock is trading at P/E of 10x and EV/EBITDA of 5.4x its FY2025E. We maintain our Buy rating on the stock with an upward revised TP of Rs930.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	CMP (Rs/ Share)	P/E (x)			EV/EBITDA (x)			ROCE (%)		
		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GNA Axles	775	18.7	13.0	10.8	10.0	7.7	6.3	17.4	21.5	22.0
Gabriel India	177	28.4	18.1	13.9	16.3	10.9	8.3	16.8	22.3	25.2

Source: Company; 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 normalisation 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 director
Mr. Jasvinder Singh	Executive director
Mr Ranbir Singh	Executive director
Mr Rakesh Kumar Gupta	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Seehra Jasvinder Singh	15.3
2	Ranbir Singh	14.9
3	Cheema Gurdeep Singh	14.6
4	Maninder Singh	11.4
5	HDFC Asset Management Co	9.0
6	Gursaran Singh	8.4
7	IDFC MF	1.4
8	Seksaria Nalini Narotam	1.3
9	kaur Harjinder	1.2
10	Sehra kulwin	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: Ms. Binkle Oza; Tel: 022-61150000; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

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