Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

GNA Axles Ltd

In line result, eye on margins

Automobiles	Sharekhan code: GNA
Reco/View: Buy ↔	CMP: Rs. 790
	Price Target: Rs. 946 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

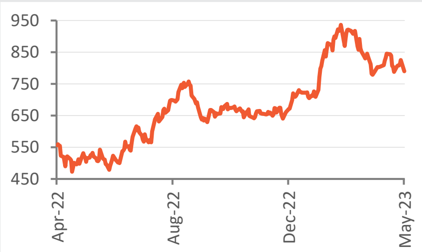
Company details

Market cap:	Rs. 1,696 cr
52-week high/low:	Rs. 977 / 466
NSE volume: (No of shares)	0.66 lakh
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.69 cr

Shareholding (%)

Promoters	68.1
FII	2.17
DII	11.9
Others	17.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.4	10.7	17.6	42.0
Relative to Sensex	-12.0	10.0	13.8	33.5

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs. 946, driven by expectation of 9.7% earning CAGR over FY23-25E, stable margin and attractive valuation.
- Operating performance was in line with estimates in Q4FY23.
- European market is stable for GNA, while facing headwinds in the North American market.
- EBITDA margin is expected to be sustained in the range of 14.5%-15%. The stock is trading at P/E of 10.8x and EV/EBITDA of 6.6x its FY2025E estimates.

In Q4FY23, GNA Axles (GNA) reported operating performance in line with our estimates. Revenue declined by 5.1% q-o-q to Rs 383.8 cr (against our estimate of Rs 400 cr). Despite 210 bps q-o-q contraction in gross margin, the EBITDA margin contracted by a mere 10 bps q-o-q to 15.4% (against an estimate of 15.5%) on account of the sharp reduction in other expenses. Other expenses as % of sales contracted by 300 bps q-o-q to 12.4%, which we believe is mainly due to a correction in freight costs. With this operating performance, the reported PAT declined by 4.9% q-o-q to Rs 34.0 cr against our estimate of Rs 34.5 cr. With strong growth across the geographies, GNA registered robust performance in FY23. In FY23, GNA registered higher growth in domestic revenue compared to export growth and hence the revenue contribution from domestic market has increased in FY23. In FY23, domestic revenue increased by 45.9% yoy and contributed 47.0% (40 % in FY22) to the total revenue and export revenue increased by 10.5% yoy and contributed 53.0% (60% in FY22) to the total revenue. However, CV: OH mix in its revenue remains same at 61% :39% in FY23. The company has announced a dividend of Rs 6/ share. The stock trades at P/E of 10.8x and EV/EBITDA of 6.6x FY2025E. We maintain our Buy rating on the stock with a revised TP of Rs 946.

Key positives

- Reported performance in Q4FY2023 was in line with estimates, while EBITDA margin at 15.4% came close to our estimate of 15.5%, and RPAT came at Rs 34 cr against our estimate of Rs 34.5 cr.
- Other expenses contracted by 300 bps q-o-q to 12.4% in Q4FY23.
- Registered 25% growth in revenue in FY23 on the back of 46% growth in domestic revenue and 10.5% in export revenue.
- CV: OH mix remained the same at 61%:39% in FY23.
- The company has scheduled a capex of Rs 250 cr over the next 3 years. The capex would be funded by internal accruals.

Key negatives

- Gross margin contracted by 210 bps q-o-q to 32.6%
- Employee cost as % of sales expanded by 100 bps to 4.8%

Management Commentary

- The company has scheduled a capex of Rs 250 cr over the next 3 years as its capacutilisationtion is reaching 80%.
- European market is stable for GNA.
- GNA is facing a slowdown in North American markets and hoping that the North American market may recover in the medium term.
- Maintained EBITDA margin expectations of in a range of 14.5-15%.

Our Call

Valuation – Maintain Buy with a revised PT of Rs.946: Despite the lack of gross margin expansion and weakness in the North American market, GNA has reported operating performance and PAT in line with estimates. We believe that the company is benefitting from a correction in freight costs as its other expenses came down sharply in Q4FY23. In the future while the company has scheduled a capex of Rs 250 cr over the next 3 years, it indicated a near term weakness in North American market. Further, GNA shared a stable outlook for European markets. In light of high base and macro issues in the overseas market the company is looking for a 8-9% revenue growth in FY24E and aiming to sustain EBITDA Margin in the range of 14.5-15%, which in our view is realistic. Given the diversified geography mix and strong clientele, we believe GNA is well positioned to sustain its higher-level revenue. Post incorporating FY23 performance and its capex plans, we have built up an 8.0% revenue CAGR and 9.7% PAT CAGR over FY23-25E. We continue to maintain our BUY rating on the stock with a revised target price of Rs 946 on the expectation of 9.7% earning CAGR over FY23-25E, stable margin and attractive valuation.

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) Rs cr

Particulars	FY2021	FY2022	FY2023P	FY2024E	FY2025E
Net Sales	868	1,243	1,583	1,709	1,847
Growth (%)		43.2	27.4	8.0	8.1
EBIDTA	144	181	233	256	281
OPM (%)	16.6	14.6	14.7	15.0	15.2
Recurring PAT	71	89	130	142	157
Growth (%)		25.7	46.7	9.1	10.2
EPS (Rs)	32.9	41.4	60.7	66.2	73.0
PE (x)	24.0	19.1	13.0	11.9	10.8
P/BV (x)	3.3	2.8	2.4	2.0	1.7
EV/EBIDTA (x)	12.8	10.5	8.0	7.2	6.6
ROE (%)	14.6	16.0	19.9	18.2	17.1
ROCE (%)	11.8	13.0	16.3	15.6	15.0

Source: Company; Sharekhan estimates

Strategically diversifying revenue mix

- GNA's foray into the SUV segment would be an incremental growth driver.
- GNA has already begun a supply to SUV/MUV players in the domestic as well as in export markets.
- We assume the SUV/ MUV segment to contribute Rs. 70 crore-Rs, 80 crore to the top line in FY2024E.
- Entry into the SUV segment would not only provide an additional growth avenue but will also de-risk its business model by reducing the cyclicality of the CV segment. Similarly, we understand that the EV segment is currently contributing 3-4% to the top line.

Europe is stable, North America is challenging in the near term

- While the management observes a stable market in Europe, it has observed challenges in North American markets.
- North American market is one of the critical markets for GNA .
- In FY23, Europe and North American markets contributed 27% and 16% to its revenue, respectively. Given GNA follows an export-oriented business, the recovery in the export market is critical for sustainable performance.
- In Fy23, export contributed 53% to the total revenue compared to 60% in Fy22 as export witnessed slowed growth compared to domestic business.

Realistic guidance

- Management is targeting a sustainable EBITDA margin in of 14.5-15.0% and has guided for 8-9% growth in revenue in FY24E.
- Given the cloudy business environment, management's guidance appears to be realistic, and we expect it to deliver a sustainable EBITDA margin in the medium term.

Change in estimates **Rs cr**

	New		Earlier		% change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,709	1,847	1,726	1,892	(1.0)	(2.4)
EBITDA	256	281	259	288	(1.0)	(2.4)
EBITDA margin (%)	15.0	15.2	15.0	15.2		
PAT	142	157	146	166	(2.8)	(5.6)
EPS	66.2	73.0	68.0	77.3	(2.7)	(5.6)

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Revenues	383.8	300.5	27.7	404.2	(5.1)
Total Expenses	324.5	260.9	24.4	341.4	(5.0)
EBIDTA	59.3	39.6	49.9	62.8	(5.6)
Depreciation	12.1	12.7	(4.0)	12.2	(0.1)
Interest	2.3	2.4	(5.4)	2.9	(20.8)
Other Income	0.4	0.0	NA	0.4	(2.2)
PBT	45.3	24.5	84.6	48.2	(6.1)
Tax	11.3	6.4	75.8	12.4	(9.4)
Adjusted PAT	34.0	18.1	87.8	35.8	(4.9)
EPS (Rs.)	15.8	8.4	87.8	16.7	(4.9)

Source: Company; Sharekhan Research

Key Ratios (Consolidated)

Particulars	Q4FY23	Q4FY22	Y-o-Y %	Q3FY23	Q-o-Q %
Gross margin (%)	32.6	34.7	(200)	34.7	(210)
EBIDTA margin (%)	15.4	13.2	230	15.5	(10)
Net profit margin (%)	8.9	6.0	280	8.9	-
Effective tax rate (%)	24.9	26.1	(130)	25.8	(90)

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Buoyant demand for the CV and farm sectors

We expect the CV sector to continue to observe a cyclical recovery on the back of ongoing investments in the infra segment. We expect substantial 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 auto component suppliers maintain a positive outlook for the CV industry. Moreover, domestic tractor markets are expected to remain stable, aided by strong rural sentiments.

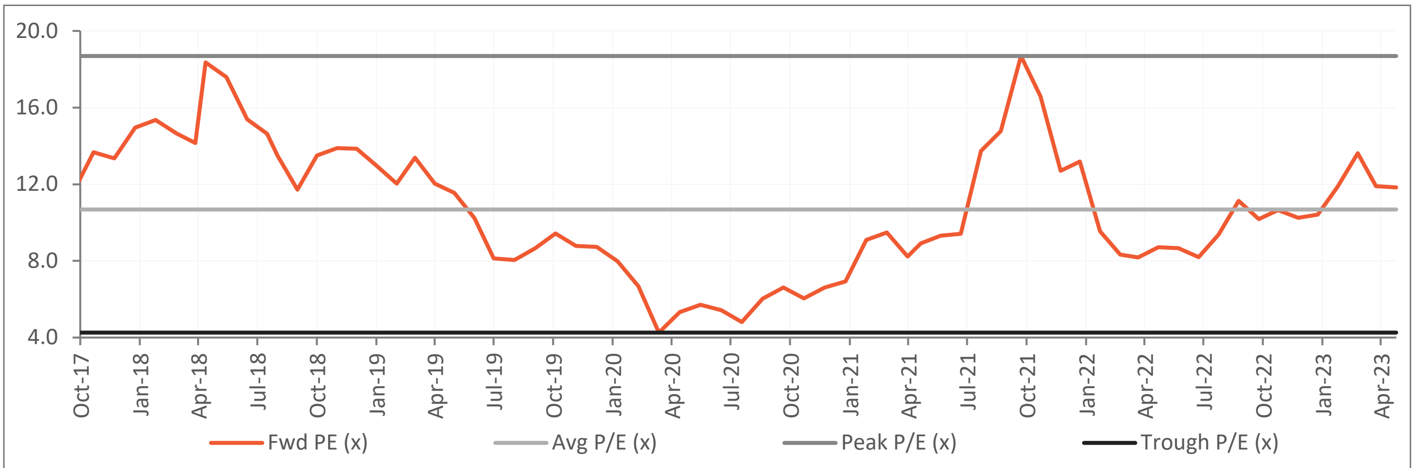
■ Company Outlook – Positive

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 client business, 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 in India and globally.

■ Valuation – Maintain Buy with a revised PT of Rs.946

Despite the lack of gross margin expansion and weakness in the North American market, GNA has reported operating performance and PAT in line with estimates. We believe that the company is benefitting from a correction in freight cost as its other expenses came down sharply in Q4FY23. Going forward, while the company has scheduled a capex of Rs 250 cr over the next 3 years, it indicated for a near term weakness in the North American market. Further, GNA shared a stable outlook for European markets. In light of high base and macro issues in the overseas market the company is looking for an 8-9% revenue growth in FY24 and aiming to sustain EBITDA Margin in the range of 14.5-15%, which in our view, is realistic. Given the diversified geography mix and strong clientele, GNA is well-positioned to sustain its revenue at higher levels. Post incorporating FY23 performance and its capex plans, we have built up a 8.0% revenue CAGR and 9.7% PAT CAGR over FY23-25E. We maintain our BUY rating on the stock with a revised target price of Rs 946 on the expectation of 9.7% earning CAGR over FY23-25E, stable margin and attractive valuation.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	Rs/Share	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
GNA Axles	790	19.1	13.0	11.9	10.5	8.0	7.2	13.0	16.3	15.6
Gabriel India	158	25.4	17.3	12.4	14.5	9.8	7.1	12.1	15.6	18.8

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 the capacity to produce up to 165kg, producing about 2 million axle shafts annually. The company primarily caters to the requirements of CVs and tractor segments in the domestic and export markets. CV : OH mix stood at 61: 39 in its revenue mix. In FY23 exports contributed 53% to its total revenue, while domestic market contributed 47% to its total revenue.

Investment theme

GNA has demand improvement in both domestic as well as export markets in FY23. In the domestic market, tractor demand is expected to remain stable due to high base. In the export markets, the truck demand is improving in both key markets of the US and Europe. Although GNA has been facing temporary issue on demand front in North America which in our view would ease out in medium term. 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Seehra Jasvinder Singh	15.30
2	Singh Ranbir	14.94
3	Gurdeep Singh	14.62
4	Seehra Maninder Singh	11.37
5	HDFC Asset Management Co Ltd	9.04
6	Singh Gursaran	8.43
7	TATA Asset Management Pvt Ltd	1.37
8	Seksaria Nalini Narotam	1.30
9	IDFC Mutual Fund/India	1.24
10	Kaur Harjinder	1.18

Source: Bloomberg

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 detoriating 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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