Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

GNA Axles Ltd

Operating performance beats estimates

Automobiles	Sharekhan code: GNA
Reco/View: Buy ↔	CMP: Rs. 935 / Price Target: Rs. 1,095 ↑

↑ 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		↔	

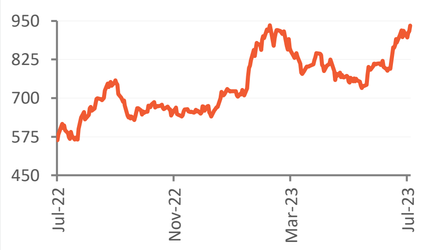
Company details

Market cap:	Rs. 2,007 cr
52-week high/low:	Rs. 977 / 554
NSE volume: (No of shares)	1.0 lakh
BSE code:	540124
NSE code:	GNA
Free float: (No of shares)	0.68 cr

Shareholding (%)

Promoters	68.1
FII	1.06
DII	11.3
Others	19.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.9	16.3	29.0	65.9
Relative to Sensex	10.6	4.5	18.0	41.0

Sharekhan Research, Bloomberg

Summary

- GNA Axles registered 240 bps y-o-y expansion in EBITDA margin to 15.8% against estimate of 14.5%.
- The company announced a bonus share in a ratio of 1:1.
- The stock is trading at P/E of 12.8x and EV/EBITDA of 7.7x its FY2025E estimates.
- We maintain a Buy rating on GNA Axles Limited (GNA) with a revised PT of Rs. 1095, on healthy operating margin performance in Q1FY24 and attractive valuation.

In Q1FY24, GNA's operating performance exceeded our estimates with EBITDA margin coming in better than expectations as soft raw material costs and a change in revenue mix drove up gross margins. Despite a 4.6% miss in revenue estimates, EBITDA exceeded estimates by 4.0% and EBITDA margin beat estimates by 130 bps. Consequently, adjusted PAT beat estimates by 10.5%. Revenue declined by 2.5% q-o-q to Rs 374.0 crore (up 0.3% y-o-y) On a y-o-y basis, domestic revenue remains flat (up 0.6%) and export revenue fell by mere 1.2%. Domestic & export mix stood at 50:50 in Q1FY24 as compared to 49:51 in Q1FY23. In Q1FY24, the CV and OH segments contributed 57% and 43% respectively to the total revenues as compared to 63% and 37%, respectively in Q1FY23. Further gross margin expanded by 260 bps y-o-y and 120 bps q-o-q. With healthy gross margin expansion EBITDA Margin expanded by 240 bps y-o-y and 40 bps q-o-q to 15.8% (against estimate of 14.5%). While EBITDA margin expansion on y-o-y basis was expected, the sequential rise surprised positively, as the management has been looking for an EBITDA margin in a stable range of 14.5-15%. With higher-than-expected operating performance, the APAT increased by 22.7% y-o-y and declined by 2.5% q-o-q to Rs 33.2 crore (against our estimate of Rs 30 cr). Along with the result, the company has also announced a bonus share in ratio of 1:1 (record -date: 11 August 2023). We maintain our Buy rating on the stock with a revised PT of Rs 1095.

Key positives

- Despite a miss in revenue estimates, GNA's operating performance was ahead of estimates due to healthy gross margin expansion.
- EBITDA margins expanded by 240 bps y-o-y and 40 bps q-o-q to 15.8% - marginally ahead of management's guided range of 14.5-15%.
- Along with the result GNA has also announced a bonus share in a ratio of 1:1.

Key negatives

- Revenue declined by 2.5% q-o-q and missed our estimates by4.6%
- Employee cost as % of sales expanded by 80 bps y-o-y to 5%

Management Commentary

- Company has scheduled a capex of Rs 250 cr over next 3 years as its capacity utilization is reaching to 80%.
- Management has recently guided for a 8-9% revenue growth and EBITDA margin in a range of 14.5% -15% for FY24.

Our Call

Valuation – Maintain Buy with an revised PT of Rs. 1,095: With healthy gross margin expansion, GNA beat our EBITDA margin expectations in Q1FY24 and reported PAT ahead of estimates. The EBITDA margin expansion on y-o-y basis was on expected lines, however EBITDA Margin expansion on q-o-q basis, surprised positively. We believe that the company is passing on corrections in input costs (including freight cost) to customers and hence revenue remains flat in tandem, while it is sustaining desired levels of profitability. In light of a high base and macro issues in overseas market the company was recently looking for a 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, we believe GNA is well positioned to sustain its revenue at higher levels. After Q1FY24 performance, we retain our earnings estimates. We built up a 8.0% revenue CAGR and 9.7% PAT CAGR over FY23-25E. We maintain a Buy rating on the stock with revised target price of Rs 1,095 on expectation of 9.7% earning CAGR over FY23-25E, stable margin and attractive valuation.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22	FY23P	FY24E	FY25E
Net Sales	890	1,270	1,583	1,709	1,847
Growth (%)		42.8	24.6	8.0	8.1
EBIDTA	144	181	233	256	281
OPM (%)	16.2	14.2	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)	28.4	22.6	15.4	14.1	12.8
P/BV (x)	3.9	3.4	2.8	2.4	2.0
EV/EBIDTA (x)	15.0	12.2	9.3	8.4	7.7
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

Q1FY24 performance: Reported operating performance ahead of estimates

- Despite a 4.6% miss in revenue , EBITDA margin exceeded estimates by 130 bps on account of soft RM cost and hence bottomline came 10.5% ahead of estimates.
- Revenue declined by 2.5% qoq to Rs 374 cr (vs exp Rs 392 cr) and EBITDA came flat on qoq at Rs 59.3cr on (vs expectations of 57 crore)
- EBITDA margin expanded by 40 bps q-o-q to 15.8% (vs exp 14.5%) on account of 120 bps qoq expansion in gross margin. APAT declined by 2.5% qoq to Rs 33.2 crore (Vs expectations of Rs. 30 cr)
- Along with the result GNA has announced a bonus share in a ratio of 1:1. Currently we have buy rating on the stock.

Strategically diversifying revenue mix

- GNA's foray into the SUV segment would act as an incremental growth driver.
- Company has already begun a supply to SUV/MUV players in the domestic as well as in export markets.
- We assumes the SUV/ MUV segment to contribute Rs. 70 crore-Rs, 80 crore to the top line in FY2024E.
- Entry into 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.

Realistic guidance

- Management was recently targeting a sustainable EBITDA margin in of 14.5-15.0% and has guided for 8-9% growth in revenue in FY24E.
- Given a 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

Particulars	Revised		Earlier		% Change	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	1,709	1,847	1,709	1,847	-	-
EBITDA	256	281	256	281	-	-
EBITDA margin (%)	15.0	15.2	15.0	15.2		
PAT	142	157	142	157	-	-
EPS	66.2	73.0	66.2	73.0	-	-

Source: Company; Sharekhan Research

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	%YoY	Q4FY23	%QoQ
Revenues	374.0	375.2	(0.3)	383.8	(2.5)
Total Expenses	314.8	324.6	(3.0)	324.5	(3.0)
EBIDTA	59.3	50.5	17.2	59.3	(0.0)
Depreciation	12.2	11.5	5.8	12.1	0.5
Interest	2.9	3.0	(2.1)	2.3	28.1
Other Income	0.9	0.4		0.4	
PBT	45.0	36.4	23.7	45.3	(0.5)
Tax	11.9	9.4	26.4	11.3	5.5
Adjusted PAT	33.2	27.0	22.7	34.0	(2.5)
EPS	15.4	12.6	22.7	15.8	(2.5)

Source: Company; Sharekhan Research

Key Ratios (Consolidated) -

Particulars	Q1FY24	Q1FY23	YoY (bps)	Q4FY23	QoQ (bps)
Gross margin (%)	33.8	31.2	260	32.6	120
EBIDTA margin (%)	15.8	13.5	240	15.4	40
Net profit margin (%)	8.9	7.2	170	8.9	-
Effective tax rate (%)	26.4	25.8	60	24.9	150

Source: Company; Sharekhan Research

Outlook and Valuation

Sector Outlook – Buoyant demand for the CV and farm sectors

We expect CV sector to continue to observe a cyclical recovery on the back of ongoing investment in infra segment. 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 expected to recover, aided by increasing traction in class 8 truck order books. Most of the 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.

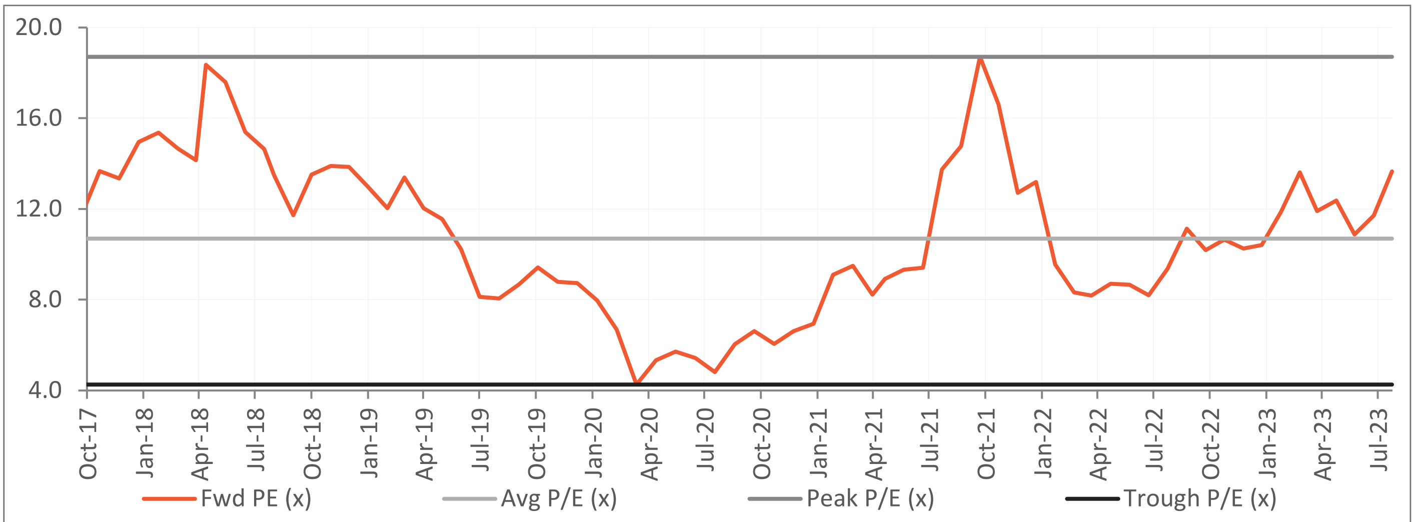
Company Outlook – Positive

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 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.

Valuation – Maintain Buy with an revised PT of Rs.1,095

With healthy gross margin expansion, GNA beat our EBITDA margin expectations in Q1FY24 and reported PAT ahead of estimates. The EBITDA margin expansion on y-o-y basis was on expected lines, however EBITDA Margin expansion on q-o-q basis, surprised positively. We believe that the company is passing on corrections in input costs (including freight cost) to customers and hence revenue remain flat in tandem, while it is sustaining desired levels of profitability. In light of a high base and macro issues in overseas market the company was recently looking for a 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, we believe GNA is well positioned to sustain its revenue at higher levels. After Q1FY24 performance, we retain our earnings estimates. We built up a 8.0% revenue CAGR and 9.7% PAT CAGR over FY23-25E. We maintain a Buy rating on the stock with revised target price of Rs 1,095 on 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	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
GNA Axles	935	15.4	14.1	12.8	9.3	8.4	7.7	16.3	15.6	15.0
Gabriel India	214	23.2	16.7	14.2	13.5	10.1	8.5	16.6	19.8	19.9

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 seen 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 export markets, 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	1.86%
8	Seksaria Nalini Narotam	1.30%
9	Kaur Harjinder	1.18%
10	Sehra Kulwin	0.99%

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

Sharekhan
by BNP PARIBAS

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