



Powered by the Sharekhan 3R Research Philosophy

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	■	↔	■

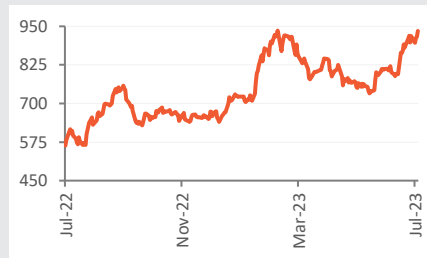
Company details

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

Automobiles

Sharekhan code: GNA

Reco/View: Buy	↔	CMP: Rs. 935	Price Target: Rs. 1,095	↑
↑ Upgrade	↔ Maintain	↓ Downgrade		

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 by 4.6%.
- 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)

Particulars	Rs cr				
	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 cyclicity 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)**

Particulars	Rs cr				
	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.

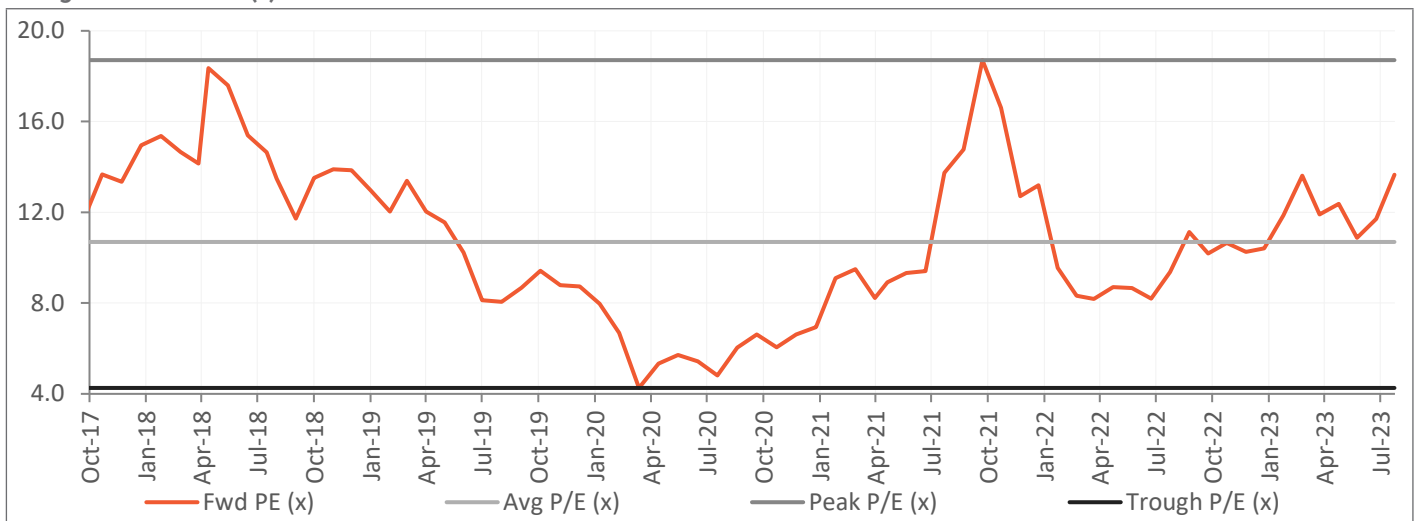
### ■ Company Outlook – Positive

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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## 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

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200/022- 33054600