

30 October 2017

Initiating Coverage (BUY)

GNA AXLES LTD

 CMP **INR 347**

 Target Price **INR 407**
Stock Details

Industry	AUTO PARTS & EQUIPMENT
Bloomberg Code	GNA:IN
BSE Code	540124
Face Value (Rs.)	10.00
Market Cap. (Rs. mn)	7512.8
52wk. Low/High (Adjusted) ((Rs.))	171.10/395.40

Shareholding Pattern Sept '17

Promoter (%)	70.65
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	29.35
No. of Share Outstanding (mn)	21.45

Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	13.43	25.16	24.50	23.00
EV/EBITDA (x)	6.73	8.46	7.92	7.48
P/BV (x)	3.57	2.53	2.42	2.38

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	5,026	5,134	5,545	6,210
EBITDA	828	833	924	1,033
Net Profit	260	296	326	380
EPS (Rs.)*	17.1	13.8	15.2	17.7

*Un adjusted

Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	16.3	16.1	16.5	16.5
EBIT Margin (%)	10.9	11.5	12.1	12.3
Net Pro. Margin (%)	5.1	5.7	5.8	6.1
Debt/Equity (x)	0.46	0.09	0.08	0.07
RoNW (%)	20.7	13.6	10.4	10.9
RoCE (%)	12.7	11.1	9.5	10.1

One Year Price / Volume



We recommend 'BUY' on GNA AXLES LTD for a target of INR 347 - valuing the company at P/E 23x of FY19E Earning.

INVESTMENT RATIONALE:

- GNA supplies variety of rear axle shafts for tractors and CVs for both domestic and export markets.
- GNA is also planning to venture into production of axles for LCV and SUVs for both domestic and international markets.
- Leader in domestic Rear axle manufacturing.
- Diversified products range and robust clientele.
- Higher capacity utilization to improve margins.
- Gradual recovery in European and American economies will drive export growth.
- GNA has developed long term relationship with its clients, which include prominent OEMs like M&M, Escorts, John Deere, etc.
- Diversified geographic presence & marquee clientele.
- GNA is a leading axle shafts player with long term customer relationships.
- GNA enjoys a reasonably good balance sheet and both Topline and Bottomline growth is likely to remain strong going ahead.

VALUATIONS AND VIEW:

GNA is a leading player in automotive axle space having exposure both in domestic and international market with few of the large OEMs and Tier-1 clientele. It is expected to gain significantly on account of CV cycle recovery (both domestic and export markets) and bounce back in tractor sales. We value the business at 23x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 407 per share.

RISK & CONCERS

- **High client concentration** – GNA earns ~40% of its domestic revenue and ~50% of its exports revenue from top 10 domestic and international clients respectively. The loss couple of these clients can severely impact the top line for company.
- **Currency fluctuation risk** – GNA’s revenue from exports is >50% which makes it vulnerable to currency fluctuations. Any adverse movement of currency can lead to significant decline of revenue going ahead.
- **Higher raw material prices** - Any price fluctuations in steel due to supply side disruption could impact its margins in short term because passing on its impact takes some time.
- **Interest Rates:** If Federal Reserve Bank increases the interest rates, it will negatively affect the demand of automobiles in the market
- **Exposure to European markets** - subject to numerous political and economic risks will affect the major players negatively

COMPANY BACKGROUND:

Established in 1993, it is one of India’s leading rear axle shafts manufacturer. It products find applications across on-highway vehicles (LCV, MCV, HCV and buses, among others) and off -highway vehicles (agricultural tractors and machinery, forestry, construction equipment, defence and mining, among others). It also manufacture solid and hollow spindles used in assembling the axle for various vehicles and equipment.

Products are widely consumed world over by the leading OEM manufacturers across USA, Sweden, Turkey, Brazil, Italy, Germany, Spain, Mexico, Japan, UK, France, China and Australia, among others. Besides, it is also tier 1 suppliers to several Indian OEMs. Its two state-of-the-art manufacturing facilities are located in Mehtiana (District Hoshiarpur) and Gulabgarh Jattan (District Kapurthala) in Punjab with a total annual capacity of 2.30 Million rear axle shafts, 0.40 Million other shafts and 0.30 Million spindles.

Products-

- Rear Axle Shafts
- Spindles
- Splined Shafts

INDUSTRY OVERVIEW:

Over the last decade, the Indian automotive component industry witnessed a robust growth on account of increased investments by automotive OEMs in India, technical capabilities and low cost advantage. According to Automotive Component Manufacturers Association of India (ACMA), the Indian Automotive sector is expected to be among the world’s top 3 in the next few decades. Auto Components Exports are projected to touch ~4.5 lakh crore by FY26 whereas the domestic sales of the auto components is expected to touch around ~5 lakh crore. The government’s Automotive Mission Plan 2016-26 is one of the major growth drivers behind this. It will drive the ‘Make in India’ campaign. The campaign’s focus will mainly be on exports of small cars, multi-utility vehicles (MUVs), two and three wheelers and automotive components.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Motherson Sumi	358	33.7	75,274.6	0.37	347.3	(3.04)	13,128.6	25.63	8.73
Bosch	166	20.3	659.0	0.77	302.6	(20.10)	2,648.4	4.19	5.24
Exide Inds.	203	21.5	17,263.5	1.18	NaN	NaN	NaN	NaN	3.43
TI Financial	578	20.4	10,841.6	0.02	123.6	11.74	764.7	(49.31)	3.76
Amara Raja Batt.	684	26.1	11,678.5	0.64	99.9	(23.58)	1,497.5	14.47	4.34
Sundram Fasten.	511	32.3	10,729.8	0.88	90.2	19.35	788.8	10.95	7.65
Sundaram Clayton	5,912	44.9	11,960.9	0.53	NaN	NaN	NaN	NaN	6.41
GNA Axles	350	24.5	7,988.9	-	10.66	41.38	153.54	18.09	2.53

*TTM

FINANCIAL OVERVIEW

Q3 FY17 Performance Highlight

(in Million)	3Q FY16	4Q FY16	1Q FY17	2Q FY17	3Q FY17	YoY (%)	QoQ (%)
Revenue	130.02	118.55	133.13	145.07	153.54	18.09%	5.84%
Other Income	0.01	1.38	1.52	0.91	0.88		
Total Income	130.04	119.92	134.65	145.98	154.42	18.75%	5.78%
Expenditure	-108.43	-99.13	-118.14	-124.24	-131.61		
As a % of Sales	83.39%	83.62%	88.74%	85.64%	85.72%		
Interest	-4.31	-2.33	-1.98	-2.1	-1.81	-58.00%	-13.81%
PBDT	17.3	18.47	16.51	21.74	22.81		
As a % of Sales	13.31%	15.58%	12.40%	14.99%	14.86%		
Depreciation	-5.59	-6.04	-5.89	-5.89	-6.46		
PBT	11.71	12.43	10.62	15.86	16.35	39.62%	3.09%
As a % of Sales	9.01%	10.49%	7.98%	10.93%	10.65%		
Tax	-4.17	-4.29	-4.51	-4.77	-5.68	36.21%	19.08%
Net Profit	7.54	8.14	6.11	11.08	10.66	41.38%	-3.79%
As a % of Sales	5.80%	6.87%	4.59%	7.64%	6.94%		
Equity	21.47	21.47	21.47	21.47	21.47	0.00%	0.00%
EPS (Rs)	3.51	--	2.85	5.16	4.97	41.60%	-3.68%
CEPS (Rs)	6.12	6.6	5.59	7.91	7.98		
OPM %	16.62	17.54	12.4	14.99	14.85		
NPM %	5.8	6.87	4.59	7.64	6.95		

INCOME STATEMENT (CONSOLIDATED)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	4,259	5,026	5,134	5,545	6,210	6,831
Other Operating Income	48	64	29	51	60	64
Expenditure	3,697	4,262	4,330	4,671	5,237	5,762
EBITDA	610	828	833	924	1,033	1,133
Depreciation	230	272	239	248	262	278
EBIT	380	556	594	676	771	855
Interest Expenses	173	163	125	157	164	187
PBT	207	393	469	519	607	668
Tax	58	134	173	193	228	252
Extraordinary Items	-	-	-	-	-	-
Net Income Before Adjustment	150	260	296	326	380	416
Minority Int./Income from Assoc.	-	-	-	-	-	-
Adjusted PAT	150	260	296	326	380	416

BALANCE SHEET (CONSOLIDATED)

Y/E Mar (Rs mn)	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	152	152	215	215	215	215
Reserves & surplus	976	1,231	2,754	3,081	3,460	3,877
Misc Expenditure	-	-	-	-	-	-
Net worth	1,128	1,383	2,969	3,295	3,675	4,091
Minority Interest	-	-	-	-	-	-
Share Application Money	-	-	-	-	-	-
Loan Funds	840	637	262	264	262	260
Net deferred tax liability	60	37	25	25	25	25
Other Long-term Liabilities	-	-	-	-	-	-
Long-term Provisions	-	-	-	-	-	-
Total Liabilities	2,029	2,058	3,258	3,585	3,964	4,379
Net block	1,598	1,474	1,343	1,246	1,188	1,113
Investment, Loan & Adv.	203	183	466	504	496	567
Total Current Assets	2,464	2,809	3,963	4,438	5,183	5,878
Current Liabilities & Provisions	2,236	2,408	2,516	2,604	2,904	3,182
Net Current Assets	228	400	1,447	1,834	2,279	2,696
Total Assets	2,029	2,058	3,258	3,585	3,964	4,379

CASH FLOW (CONSOLIDATED)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	101	496	592	679
Cash Flow from Investments	(363)	(189)	(195)	(275)
Cash Flow from Financing	980	(97)	(72)	(101)
Net Changes in Cash	718	210	325	303
Opening Cash	7	724	934	1,259
Closing Cash Balance	724	934	1,259	1,562

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