

**HOLD**

TP: Rs 540 | ▲ 3%

**GNA AXLES**

| Auto Components

| 26 July 2021

**Healthy Q1 but recent rally limits upside; maintain HOLD**

- GNA's Q1 revenue grew 6% QoQ. Better operating efficiency offset a below-expected gross margin, aiding EBITDA margin of 16.6%
- Strong export visibility, steady domestic tractor sales and revival of the domestic CV cycle should support healthy profitability
- We revise FY22/FY23 EPS up ~20% and raise our Mar'22 TP to Rs 540 (vs. Rs 450). Retain HOLD as a 50% rally in the last three months caps upside

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**Healthy Q1FY22:** GNA's revenue grew a healthy 6% QoQ to Rs 3.3bn (Rs 2.5bn est.) despite Covid-19 lockdowns in most parts of the country during Q1, implying a healthy pickup in exports. An above-expected gross margin decline was more than set off by better operating efficiencies, leading to a 16.6% EBITDA margin. EBITDA grew 13% QoQ to Rs 544mn and adj. PAT was at Rs 294mn (+7% QoQ).

**Three-pronged growth outlook:** We model for a healthy 15% earnings CAGR for GNA over FY21-FY24 underpinned by three pillars of growth: (1) strong export visibility from the US CV market – per ATA, truck volumes in the US will likely rebound 4.9% next year and then grow 3.2% per year on average through 2026, (2) robust revival prospects for the domestic CV market – we expect a 30% CAGR in MHCVs over FY21-FY24 (post the low base of FY21), and (3) steady domestic tractor industry growth – at an estimated 7% volume CAGR through FY23.

**Derisking of business model:** The company has forayed into UV and LCV rear axles with an initial capacity of 0.5mn units. This has helped it derisk reliance on the MHCV and tractor segments. We expect the UV segment to report a 13% CAGR during FY21-FY24.

**Estimates revised upwards:** We raise our revenue estimates for FY22 and FY23 led by higher realisations (passing on of input costs). Our EBITDA margin assumptions thus improve by 40-50bps to ~15.3%, leading to an increase of ~20% in our earnings forecast for each of these years. Upon introducing FY24 estimates, we project a revenue, EBITDA and PAT CAGR of 15%, 13% and 15% respectively for GNA over FY21-FY24.

**Maintain HOLD:** We continue to value the company at 12x FY23E EPS – in line with the past four-year average multiple. Post estimate revision, we arrive at a revised Mar'22 TP of Rs 540 (earlier Rs 450). The stock has rallied ~50% over the last three months and upsides look capped, leading us to retain our HOLD rating.

**Key changes**

Target	Rating
▲	◀ ▶

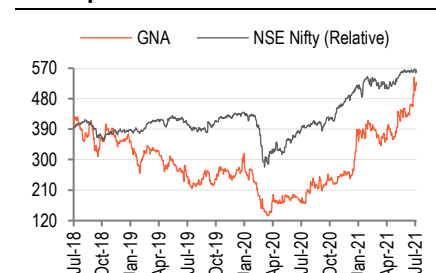
Ticker/Price	GNA IN/Rs 524
Market cap	US\$ 49.1mn
Free float	32%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 550/Rs 171
Promoter/FPI/DII	68%/1%/13%

Source: NSE | Price as of 23 Jul 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	8,896	11,570	12,449
EBITDA (Rs mn)	1,439	1,785	1,910
Adj. net profit (Rs mn)	706	911	969
Adj. EPS (Rs)	32.9	42.4	45.1
Consensus EPS (Rs)	21.4	37.4	39.6
Adj. ROAE (%)	14.7	16.4	15.2
Adj. P/E (x)	15.9	12.3	11.6
EV/EBITDA (x)	2.6	1.5	0.9
Adj. EPS growth (%)	33.8	29.1	6.3

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Revenues	3,290	813	304.5	3,101	6.1
<b>Total Income (A)</b>	<b>3,290</b>	<b>813</b>	<b>304.5</b>	<b>3,101</b>	<b>6.1</b>
<b>Operating Expenses:</b>					
Raw materials consumed	2,154	531	305.8	1,972	9.2
Employee Expenses	143	85	68.8	158	(9.3)
Other Expenses	448	141	217.2	487	(8.2)
<b>Total Expenditure (B)</b>	<b>2,745</b>	<b>757</b>	<b>262.7</b>	<b>2,617</b>	<b>4.9</b>
<b>EBITDA (A-B)</b>	<b>544</b>	<b>57</b>	<b>863.3</b>	<b>484</b>	<b>12.5</b>
Other Income	5	3	45.9	6	(11.0)
Depreciation	118	99	19.9	102	16.2
EBIT	431	(39)	(1210.1)	388	11.2
Finance Costs	31	28	11.6	14	117.4
PBT before excep items	400	(67)	(699.9)	373	7.1
PBT after excep items	400	(67)	(699.9)	373	7.1
Tax expense	106	24	337.9	97	9.1
<b>Reported PAT</b>	<b>294</b>	<b>(91)</b>	<b>(424.2)</b>	<b>276</b>	<b>6.5</b>
<b>Adjusted PAT</b>	<b>294</b>	<b>(91)</b>	<b>(424.2)</b>	<b>276</b>	<b>6.5</b>
<b>Adj EPS (Rs)</b>	<b>13.7</b>	<b>3.6</b>	<b>285.2</b>	<b>12.9</b>	<b>6.5</b>

Source: Company, BOBCAPS Research

**Fig 2 – Key parameters**

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)
Gross Margin	34.5	34.7	(22)	36.4	(190)
EBITDA Margin	16.6	6.9	960	15.6	95
EBIT Margin	13.1	(4.8)	1,788	12.5	60
PBT Margin	12.2	(8.2)	2,035	12.0	12
Tax Rate	26.4	(36.2)	6,258	25.9	46
Adj PAT Margin	8.9	(11.2)	2,011	8.9	3

Source: Company, BOBCAPS Research

## Valuation methodology

We raise our revenue estimates for FY22 and FY23 led by higher realisations (passing on of input costs). As a result, our EBITDA margin assumptions improve by 40-50bps to ~15.3%, leading to an increase of ~20% in our earnings forecast for each of these years. Upon introducing FY24 estimates, we project a revenue, EBITDA and PAT CAGR of 15%, 13% and 15% respectively for GNA over FY21-FY24.

We continue to value the company at 12x FY23E EPS – in line with the past four-year average multiple. Post estimate revision, our Mar'22 TP rises to Rs 540 (earlier Rs 450). The stock has rallied ~50% over the last three months and upsides look capped leading us to retain HOLD.

**Fig 3 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	11,570	12,449	10,675	11,491	8.4	8.3
EBITDA	1,785	1,910	1,571	1,694	13.6	12.8
OPM (%)	15.4	15.3	14.7	14.7	48bps	41bps
Adj. PAT	911	969	762	814	19.6	19.0
EPS	42.4	45.1	35.5	37.9	19.6	19.1

Source: BOBCAPS Research

**Fig 4 – Key assumptions**

(Rs mn)	FY21	FY22E	FY23E	FY24E
Volume sales (mn units)	2.8	3.1	3.3	3.5
Revenues	8,896	11,570	12,449	13,293
EBITDA	1,439	1,785	1,910	2,061
OPM (%)	16.2	15.4	15.3	15.5
Adj. PAT	706	911	969	1,063
EPS (Rs)	32.9	42.4	45.1	49.5

Source: Company, BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected exports pickup, and
- stronger-than-expected revival in domestic CV and tractor sales.

## Sector recommendation snapshot

Stock	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	2	227	140	SELL
Balkrishna Industries	BIL IN	6	2,333	1,550	SELL
Ceat	CEAT IN	1	1,372	840	SELL
Eicher Motors	EIM IN	9	2,550	2,200	SELL
Escorts	ESC IN	2	1,161	1,350	BUY
GNA Axles	GNA IN	0	524	540	HOLD
JK Tyre & Industries	JKI IN	0	143	90	SELL
Minda Corporation	MDA IN	0	133	140	BUY
MRF	MRF IN	5	81,175	67,000	SELL
Swaraj Engines	SWE IN	0	1,800	1,600	SELL
TVS Srichakra	SRTY IN	0	2,200	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 23 Jul 2021

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>9,090</b>	<b>8,896</b>	<b>11,570</b>	<b>12,449</b>	<b>13,293</b>
EBITDA	1,245	1,439	1,785	1,910	2,061
Depreciation	424	407	480	546	604
EBIT	834	1,046	1,323	1,385	1,480
Net interest inc./(exp.)	(136)	(85)	(104)	(89)	(59)
Other inc./(exp.)	13	15	18	20	23
Exceptional items	0	0	0	0	0
EBT	698	961	1,218	1,295	1,421
Income taxes	171	255	307	326	358
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	5	6	7	8	9
<b>Reported net profit</b>	<b>528</b>	<b>706</b>	<b>911</b>	<b>969</b>	<b>1,063</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>528</b>	<b>706</b>	<b>911</b>	<b>969</b>	<b>1,063</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,659	2,276	4,121	4,093	4,370
Other current liabilities	41	1,294	2,145	2,310	2,462
Provisions	97	0	46	49	54
Debt funds	1,937	1,737	1,737	1,237	737
Other liabilities	0	0	0	0	0
Equity capital	215	215	215	215	215
Reserves & surplus	4,254	4,917	5,743	6,542	7,263
Shareholders' fund	4,469	5,132	5,958	6,756	7,477
<b>Total liab. and equities</b>	<b>8,202</b>	<b>10,439</b>	<b>14,007</b>	<b>14,445</b>	<b>15,100</b>
Cash and cash eq.	211	1,044	1,717	1,041	1,161
Accounts receivables	2,963	4,379	4,438	4,093	4,370
Inventories	1,450	1,526	1,902	2,046	2,185
Other current assets	330	340	380	341	364
Investments	0	0	2,000	3,000	3,000
Net fixed assets	2,445	2,948	3,368	3,723	3,819
CWIP	610	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(6)	(6)	(6)	(6)	(6)
Other assets	199	207	207	207	207
<b>Total assets</b>	<b>8,202</b>	<b>10,439</b>	<b>14,007</b>	<b>14,445</b>	<b>15,100</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>952</b>	<b>1,276</b>	<b>3,536</b>	<b>1,785</b>	<b>1,579</b>
Capital expenditures	(1,033)	(301)	(900)	(900)	(700)
Change in investments	0	0	(2,000)	(1,000)	0
Other investing cash flows	13	15	18	20	23
<b>Cash flow from investing</b>	<b>(1,020)</b>	<b>(286)</b>	<b>(2,882)</b>	<b>(1,880)</b>	<b>(677)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	239	(200)	0	(500)	(500)
Interest expenses	(136)	(85)	(104)	(89)	(59)
Dividends paid	(71)	(43)	(85)	(171)	(342)
Other financing cash flows	(28)	0	0	0	0
<b>Cash flow from financing</b>	<b>4</b>	<b>(328)</b>	<b>(190)</b>	<b>(760)</b>	<b>(901)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(65)</b>	<b>662</b>	<b>465</b>	<b>(855)</b>	<b>1</b>
<b>Closing cash &amp; cash eq.</b>	<b>211</b>	<b>1,044</b>	<b>1,717</b>	<b>1,041</b>	<b>1,161</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	24.6	32.9	42.4	45.1	49.5
Adjusted EPS	24.6	32.9	42.4	45.1	49.5
Dividend per share	3.3	2.0	4.0	8.0	15.9
Book value per share	208.1	239.0	277.5	314.7	348.3

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	0.4	0.4	0.2	0.1	0.2
EV/EBITDA	3.2	2.6	1.5	0.9	1.2
Adjusted P/E	21.3	15.9	12.3	11.6	10.6
P/BV	2.5	2.2	1.9	1.7	1.5

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.5	73.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	83.7	91.8	92.1	93.6	96.0
EBIT margin (EBIT/Revenue)	9.2	11.8	11.4	11.1	11.1
Asset turnover (Rev./Avg TA)	150.0	134.0	158.9	158.7	164.0
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.2	1.1
<b>Adjusted ROAE</b>	<b>12.4</b>	<b>14.7</b>	<b>16.4</b>	<b>15.2</b>	<b>14.9</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(2.1)	(2.1)	30.1	7.6	6.8
EBITDA	(14.2)	15.5	24.0	7.1	7.9
Adjusted EPS	(19.9)	33.8	29.1	6.3	9.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.7	16.2	15.4	15.3	15.5
EBIT margin	9.2	11.8	11.4	11.1	11.1
Adjusted profit margin	5.8	7.9	7.9	7.8	8.0
Adjusted ROAE	12.4	14.7	16.4	15.2	14.9
ROCE	10.4	11.6	13.6	13.2	13.7
<b>Working capital days (days)</b>					
Receivables	122	151	139	125	116
Inventory	61	61	54	58	58
Payables	109	129	158	189	183
<b>Ratios (x)</b>					
Gross asset turnover	0.6	0.7	0.6	0.6	0.6
Current ratio	2.8	2.0	1.3	1.2	1.2
Net interest coverage ratio	(6.1)	(12.2)	(12.7)	(15.5)	(25.0)
<b>Adjusted debt/equity</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

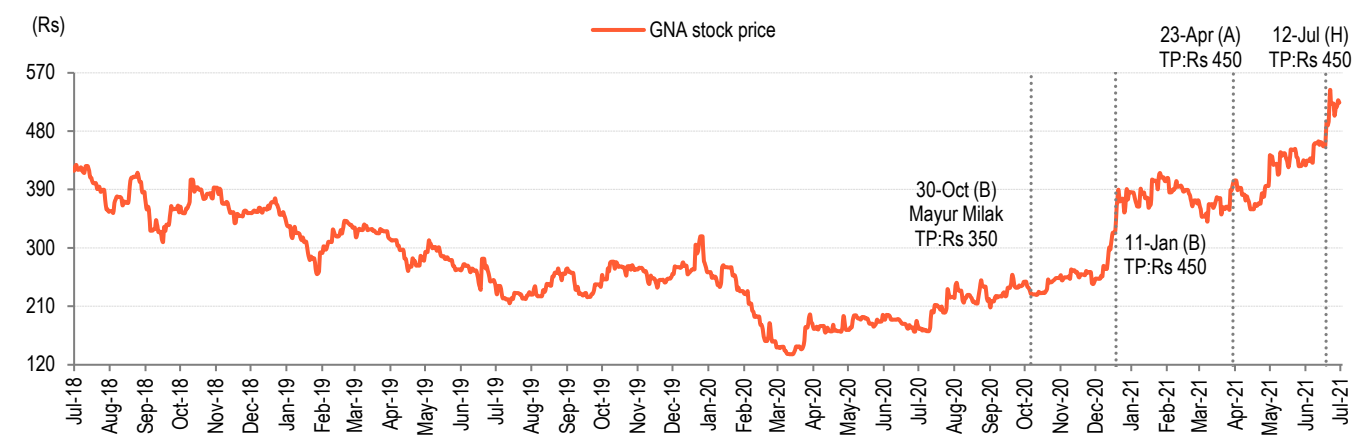
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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