

RESEARCH
BOB Economics Research | Weekly Wrap

Global yields ease with rising Covid-19 cases

GNA Axles | Target: Rs 540 | +3% | HOLD

Healthy Q1 but recent rally limits upside; maintain HOLD

SUMMARY
India Economics: Weekly Wrap

Global yields fell with rising Covid cases globally. Flash manufacturing PMI also eased (except US) in major economies such as Japan, UK and Eurozone. Services PMI strengthened in Eurozone. ECB in its recent policy hinted at “persistent accommodation” changing the inflation targeting framework to “symmetric” from close or below 2% target. On the domestic front, India’s 10Y yield rose by 2bps. Indian equity markets fell due to FII outflow. Our weekly tracker moderated to 93 (Feb’20=100) from 94 in the previous week with some moderation in mobility indicators.

[Click here for the full report.](#)
GNA Axles

- 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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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.28	0bps	(22bps)	69bps
India 10Y yield (%)	6.23	3bps	22bps	41bps
USD/INR	74.41	0.1	(0.3)	0.6
Brent Crude (US\$/bbl)	74.10	0.4	(1.9)	71.0
Dow	35,062	0.7	2.5	32.5
Shanghai	3,550	(0.7)	(0.5)	11.1
Sensex	52,976	0.3	0.5	38.9
India FII (US\$ mn)	22-Jul	MTD	CYTD	FYTD
FII-D	(116.7)	(153.7)	(3,320.5)	(1,293.2)
FII-E	579.6	(607.3)	7,476.9	150.6

Source: Bank of Baroda Economics Research



WEEKLY WRAP

26 July 2021

Global yields ease with rising Covid-19 cases

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Markets

- **Bonds:** Global yields closed lower as Covid-19 cases rose globally. Germany’s 10Y yield fell the most by 7bps (-0.42%) as ECB signaled to be “persistently accommodative”. US 10Y yield fell a tad by 1bps (1.28%) eyeing Fed meeting. Crude prices rose by 0.7% (US\$ 74/bbl). India’s 10Y yield (5.85 GS2030) rose by 2bps (6.23%) due to Rs 111bn devolvement on PDs. System liquidity surplus was at Rs 5.5tn as on 23 Jul 2021 (Rs 5.6tn, last week).
- **Currency:** Except CNY (flat) and INR (higher), global currencies closed lower this week. DXY rose by 0.2% with flash manufacturing PMI rising more than expected. Investors also await Fed meeting. AUD depreciated by 0.5% as half of Australia’s population is now under lockdown. INR appreciated by 0.2% despite higher oil prices and FII outflows (US\$ 307mn).
- **Equity:** Barring Nikkei and Sensex, other global indices ended higher this week supported by dovish comments from ECB and better flash services PMI print in Eurozone. Dow (1.1%) surged the most. Sensex (0.3%) ended in red led by losses in auto and banking stocks.
- **Covid-19 tracker:** Global Covid-19 cases rose by 3.2mn this week, with big jump seen in last two days (0.6mn addition). Fresh cases increased in US (0.4mn versus 0.2mn), Japan (23K versus 19K). In India, cases rose at a slower pace of 0.2mn versus 0.3mn. Our weekly economic activity tracker index moderated to 93 (100=Feb’20) from 94. UAE has fully vaccinated 68% of its population, UK is at 54% and US at 49%. India is at 6.7%.
- **Upcoming key events:** Major events this week include rate decision of US Fed, Q2CY21 GDP prints of US and Eurozone and China’s industrial profit data. Germany’s IFO index and US new home sales are also due. On the domestic front, eight core index and fiscal data will drive markets.



HOLD
 TP: Rs 540 | ▲ 3%

GNA AXLES

| Auto Components

| 26 July 2021

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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 mostparts 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



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%

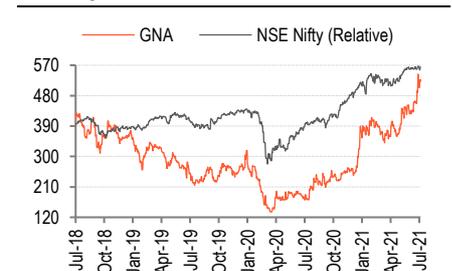
Source: NSE | Price as of 23 Jul 2021

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



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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

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