

BUY

TP: Rs 450 | ▲ 29%

GNA AXLES

| Auto Components

| 11 January 2021

Strong Q3; estimates upgraded

GNA Axles (GNA) posted a strong set of results in Q3FY21 with revenue up 29% YoY. Operating margin expanded 630bps YoY, leading to 102% YoY growth in EBITDA. We expect the North American heavy truck market to bolster exports and likely CV market revival to aid domestic growth ahead. We revise FY22/23 earnings estimates up by ~20% to factor in a better revenue and operating performance. On rolling valuations forward, we move to a new Mar'22 TP of Rs 450 (vs. Rs 350 for Sep'21), set at an unchanged 12x P/E. BUY.

Mayur Milak | Nishant Chowhan, CFA

research@bobcaps.in

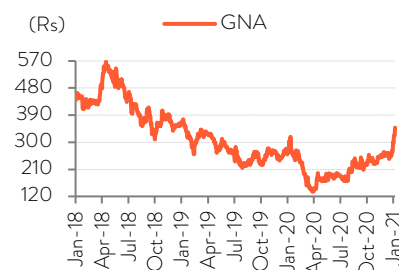
Robust Q3: GNA's topline grew 29% YoY to Rs 2.8bn, reflecting strong volume growth in both tractors and CVs during the quarter. The company reported EBITDA of Rs 482mn (+102% YoY) with margins at 17.4%, despite higher input cost pressures. The strong topline and steady margins reflected in its quarterly earnings with PAT surging 249% YoY to Rs 266mn.

Three-pronged growth outlook: We model for a healthy 12% earnings CAGR for GNA over FY21-FY23 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 41% CAGR in MHCVs over FY21-FY23, and (3) steady domestic tractor industry growth – at an estimated 6% volume CAGR through FY23.

Estimates upgraded; maintain BUY: We project a 9% CAGR in rear axle volumes for the company during FY21-FY23, leading to a revenue CAGR of 14%. At ~15% margins, EBITDA is forecast to log a 9% CAGR through FY23. We continue to value the stock at a 12x 1-yr fwd P/E multiple while rolling our valuation over to FY23 estimates, yielding a revised Mar'22 TP of Rs 450.

Ticker/Price	GNA IN/Rs 349
Market cap	US\$ 33.1mn
Shares o/s	7mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 365/Rs 126
Promoter/FPI/DII	68%/1%/13%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	9,283	9,090	8,613	10,400	11,229
EBITDA (Rs mn)	1,451	1,245	1,386	1,527	1,648
Adj. net profit (Rs mn)	659	528	649	743	813
Adj. EPS (Rs)	30.7	24.6	30.2	34.6	37.9
Adj. EPS growth (%)	29.4	(19.9)	23.0	14.4	9.5
Adj. ROAE (%)	17.7	12.4	13.6	13.7	13.4
Adj. P/E (x)	11.4	14.2	11.5	10.1	9.2
EV/EBITDA (x)	1.4	2.3	1.9	1.5	1.2

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenues	2,760	2,141	28.9	2,221	24.3	5,795	7,283	(20.4)
Total Income (A)	2,760	2,141	28.9	2,221	24.3	5,795	7,283	(20.4)
Operating Expenses:								
Raw materials consumed	1,739	1,457	19.4	1,341	29.7	3,611	4,784	(24.5)
Employee Expenses	135	102	32.7	119	13.4	339	311	8.9
Other Expenses	404	344	17.6	344	17.4	890	1,131	(21.3)
Total Expenditure (B)	2,279	1,902	19.8	1,804	26.3	4,840	6,226	(22.3)
EBITDA (A-B)	482	239	101.5	417	15.6	955	1,056	(9.6)
Other Income	3	3	(21.6)	3	(18.1)	9	6	47.8
Depreciation	102	106	(4.2)	105	(2.6)	305	318	(3.9)
EBIT	382	136	181.3	315	21.3	659	745	(11.6)
Finance Costs	22	35	(36.9)	21	7.2	71	107	(33.9)
PBT before excep items	360	101	258.1	294	22.3	588	638	(7.8)
PBT after excep items	360	101	258.1	294	22.3	588	638	(7.8)
Tax expense	94	24	287.9	65	44.2	157	156	0.6
Reported PAT	266	76	248.7	229	16.1	430	481	(10.6)
Adjusted PAT	266	76	248.7	229	16.1	430	481	(10.6)
Adj EPS (Rs)	12.4	3.6	248.7	10.7	16.1	20	22	(10.6)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	37.0	32.0	502	40	(264)	37.7	34.3	337
EBITDA margin	17.4	11.2	629	19	(131)	16.5	14.5	197
EBIT margin	13.9	6.3	750	14	(34)	11.4	10.2	114
PBT margin	13.0	4.7	835	13	(21)	10.1	8.8	139
Tax rate	26.0	24.0	200	22	395	26.8	24.5	225
Adj PAT margin	9.7	3.6	608	10	(68)	7.4	6.6	82

Source: Company, BOBCAPS Research

Valuation methodology

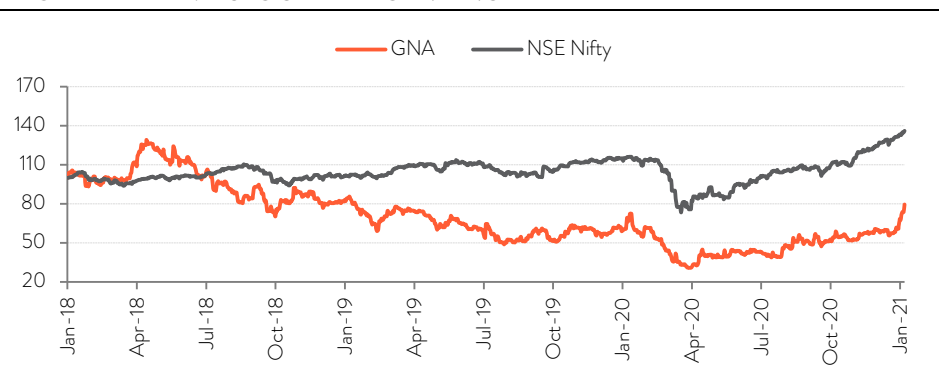
We project a 9% CAGR in rear axle volumes for the company during FY21-FY23, leading to a revenue CAGR of 14%. At ~15% margins, EBITDA is forecast to log a 9% CAGR through FY23. We continue to value the stock at a 12x P/E multiple while rolling our valuation over to FY23 estimates, yielding a revised Mar'22 TP of Rs 450 (vs. Rs 350 for Sep'21). Maintain BUY.

FIG 3 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	8,613	10,400	11,229	8,371	9,980	10,934	2.9	4.2	2.7
EBITDA	1,386	1,527	1,648	1,118	1,385	1,523	24.0	10.2	8.2
OPM (%)	16.1	14.7	14.7	13.4	13.9	13.9	205bps	58bps	53bps
Adj. PAT	649	743	813	406	602	687	59.8	23.4	18.4
EPS	30	35	38	19	28	32	59.9	23.5	18.4

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Lower exports
- Slower-than-expected domestic CV growth

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	9,283	9,090	8,613	10,400	11,229
EBITDA	1,451	1,245	1,386	1,527	1,648
Depreciation	347	424	431	475	517
EBIT	1,108	834	967	1,066	1,144
Net interest income/(expenses)	(81)	(136)	(99)	(73)	(57)
Other income/(expenses)	4	13	12	14	14
Exceptional items	0	0	0	0	0
EBT	1,027	698	868	993	1,087
Income taxes	368	171	219	250	274
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	4	5	6	7	8
Reported net profit	659	528	649	743	813
Adjustments	0	0	0	0	0
Adjusted net profit	659	528	649	743	813

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,879	1,659	2,832	3,277	3,384
Other current liabilities	60	41	(951)	(1,040)	(1,022)
Provisions	135	97	33	38	41
Debt funds	1,698	1,937	1,124	1,124	624
Other liabilities	0	0	0	0	0
Equity capital	215	215	215	215	215
Reserves & surplus	3,802	4,254	4,860	5,518	6,160
Shareholders' fund	4,017	4,469	5,075	5,732	6,375
Total liabilities and equities	7,788	8,202	8,113	9,131	9,403
Cash and cash eq.	4	211	252	547	840
Accounts receivables	3,125	2,963	3,185	3,419	3,384
Inventories	1,610	1,450	1,439	1,653	1,784
Other current assets	297	330	330	330	330
Investments	0	0	0	0	0
Net fixed assets	2,288	2,445	2,363	2,488	2,421
CWIP	157	610	350	500	450
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(33)	(6)	(6)	(6)	(6)
Other assets	341	199	199	199	199
Total assets	7,788	8,202	8,113	9,131	9,403

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,006	951	1,080	1,218	1,331
Interest expenses	(81)	(136)	(99)	(73)	(57)
Non-cash adjustments	(4)	(13)	(12)	(14)	(14)
Changes in working capital	(609)	154	(94)	(87)	33
Other operating cash flows	(4)	(4)	0	0	0
Cash flow from operations	308	952	874	1,044	1,293
Capital expenditures	(886)	(1,033)	(90)	(750)	(400)
Change in investments	0	0	0	0	0
Other investing cash flows	4	13	12	14	14
Cash flow from investing	(882)	(1,020)	(78)	(736)	(386)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	275	239	(813)	0	(500)
Interest expenses	(81)	(136)	(99)	(73)	(57)
Dividends paid	(52)	(71)	(43)	(85)	(171)
Other financing cash flows	12	(28)	0	0	0
Cash flow from financing	155	4	(955)	(158)	(728)
Changes in cash and cash eq.	(419)	(65)	(158)	150	179
Closing cash and cash eq.	4	211	252	547	840

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	30.7	24.6	30.2	34.6	37.9
Adjusted EPS	30.7	24.6	30.2	34.6	37.9
Dividend per share	2.4	3.3	2.0	4.0	8.0
Book value per share	187.1	208.1	236.4	267.0	296.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	0.2	0.3	0.3	0.2	0.2
EV/EBITDA	1.4	2.3	1.9	1.5	1.2
Adjusted P/E	11.4	14.2	11.5	10.1	9.2
P/BV	1.9	1.7	1.5	1.3	1.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	75.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	92.7	83.7	89.7	93.1	95.0
EBIT margin (EBIT/Revenue)	11.9	9.2	11.2	10.2	10.2
Asset turnover (Revenue/Avg TA)	175.9	150.0	136.6	159.3	162.1
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.3	1.2	1.1
Adjusted ROAE	17.7	12.4	13.6	13.7	13.4

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	38.5	(2.1)	(5.3)	20.8	8.0
EBITDA	40.8	(14.2)	11.3	10.2	7.9
Adjusted EPS	29.4	(19.9)	23.0	14.4	9.5
Profitability & Return ratios (%)					
EBITDA margin	15.6	13.7	16.1	14.7	14.7
EBIT margin	11.9	9.2	11.2	10.2	10.2
Adjusted profit margin	7.1	5.8	7.5	7.1	7.2
Adjusted ROAE	17.7	12.4	13.6	13.7	13.4
ROCE	13.5	10.4	11.5	12.2	12.4
Working capital days (days)					
Receivables	108	122	130	116	111
Inventory	62	61	61	54	56
Payables	111	109	151	167	169
Ratios (x)					
Gross asset turnover	0.5	0.6	0.6	0.6	0.6
Current ratio	2.4	2.8	2.7	2.6	2.6
Net interest coverage ratio	(13.7)	(6.1)	(9.7)	(14.6)	(20.1)
Adjusted debt/equity	0.4	0.4	0.2	0.2	0.1

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): GNA AXLES (GNA IN)



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

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