

ADD

TP: Rs 450 | ▲ 11%

GNA AXLES

| Auto Components

| 23 April 2021

In-line operating performance; ADD

GNA Axles' (GNA) Q4FY21 revenue was 10% ahead of estimates at Rs 3.1bn (+72% YoY), led by healthy volumes. Operating margin expanded 520bps YoY, in line with expectations, spurring 2.5x YoY growth in EBITDA while adj. PAT surged 7.5x to Rs 276mn aided by below-estimated depreciation cost. We expect the US heavy truck market to bolster exports and a likely CV market revival to support domestic growth ahead. However, at 11x FY22E EPS, the stock carries limited upside – downgrade from BUY to ADD with an unchanged Mar'22 TP of Rs 450.

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Healthy Q4: GNA's topline grew 10% ahead of estimates at Rs 3.1bn (+72% YoY), reflecting strong volume growth in both tractors and CVs during the quarter. EBITDA stood at Rs 484mn with an in-line margin of 15.6%, down 185bps sequentially owing to input cost pressures. Higher topline growth and below-expected depreciation costs translated to a seven-fold YoY increase in PAT to Rs 276mn (vs. Rs 219mn estimated).

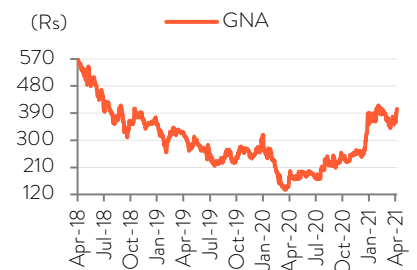
Three-pronged growth outlook: We model for a 7% earnings CAGR for GNA over FY21-FY23 underpinned by three pillars of growth: (1) strong export visibility from the US CV market – per ATA, truck volumes in the US will likely rebound 4.9% next year and then grow 3.2% per year on average through to 2026, (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 to FY23.

Downgrade to ADD: We project an 8% 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 an 8% CAGR. We continue to value the stock at 12x FY23E P/E, yielding an unchanged TP of Rs 450, but lower our rating from BUY to ADD on limited upside potential.

Ticker/Price	GNA IN/Rs 404
Market cap	US\$ 37.5mn
Shares o/s	7mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 430/Rs 165
Promoter/FPI/DII	68%/1%/13%

Source: NSE

STOCK PERFORMANCE



KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	9,283	9,090	8,896	10,675	11,491
EBITDA (Rs mn)	1,451	1,245	1,439	1,571	1,694
Adj. net profit (Rs mn)	659	528	706	762	814
Adj. EPS (Rs)	30.7	24.6	32.9	35.5	37.9
Adj. EPS growth (%)	29.4	(19.9)	33.8	7.9	6.8
Adj. ROAE (%)	17.7	12.4	14.7	13.9	13.3
Adj. P/E (x)	13.2	16.4	12.3	11.4	10.7
EV/EBITDA (x)	1.6	2.6	2.0	1.2	(0.6)

Source: Company, BOBCAPS Research | P – Provisional

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenues	3,101	1,807	71.6	2,760	12.4	8,896	9,090	(2.1)
Total Income (A)	3,101	1,807	71.6	2,760	12.4	8,896	9,090	(2.1)
Operating Expenses:								
Raw materials consumed	1,972	1,127	75.0	1,739	13.4	5,583	5,911	(5.6)
Employee Expenses	158	97	62.4	135	16.9	497	408	21.7
Other Expenses	487	394	23.6	404	20.6	1,377	1,525	(9.7)
Total Expenditure (B)	2,617	1,619	61.7	2,279	14.9	7,457	7,845	(4.9)
EBITDA (A-B)	484	189	156.5	482	0.5	1,439	1,245	15.5
Other Income	6	7	(17.0)	3	117.8	15	13	15.7
Depreciation	102	106	(3.9)	102	0.0	407	424	(3.9)
EBIT	388	89	333.5	382	1.4	1,046	834	25.4
Finance Costs	14	28	(49.9)	22	(36.0)	85	136	(37.1)
PBT	373	61	512.7	360	3.7	961	698	37.6
Tax expense	97	24	301.5	94	3.5	255	171	49.1
Reported PAT	276	37	651.1	266	3.8	706	527	33.8
Adjusted PAT	276	37	651.1	266	3.8	706	527	33.8
Adj EPS (Rs)	12.9	3.6	261.8	12.4	3.8	20	22	(10.6)

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

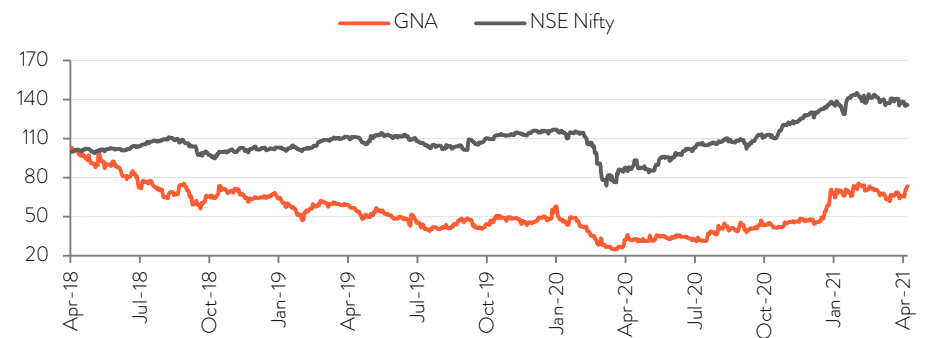
(%)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	36.4	37.6	(122)	39.6	(58)	37.2	35.0	227
EBITDA margin	15.6	10.4	516	18.8	(185)	16.2	13.7	248
EBIT margin	12.5	4.9	755	14.2	(135)	11.8	9.2	258
PBT margin	12.0	3.4	867	13.3	(100)	10.8	7.7	312
Tax rate	25.9	39.6	(1,364)	22.0	(4)	26.5	24.5	206
Adj PAT margin	8.9	2.0	688	10.3	(74)	7.9	5.8	213

Source: Company, BOBCAPS Research

Valuation methodology

We project an 8% 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 an 8% CAGR. At 11.4x/10.7x FY22E/FY23E EPS, current valuations look fair, leading us to downgrade the stock from BUY to ADD. We retain our Mar'22 target price at Rs 450, set at an unchanged 12x one-year forward P/E.

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our estimates include:

- lower exports, and
- slower-than-expected domestic CV growth.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	9,283	9,090	8,896	10,675	11,491
EBITDA	1,451	1,245	1,439	1,571	1,694
Depreciation	347	424	407	480	546
EBIT	1,108	834	1,046	1,105	1,162
Net interest income/(expenses)	(81)	(136)	(85)	(87)	(74)
Other income/(expenses)	4	13	15	14	14
Exceptional items	0	0	0	0	0
EBT	1,027	698	961	1,018	1,088
Income taxes	368	171	255	257	274
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	4	5	6	7	8
Reported net profit	659	528	706	762	814
Adjustments	0	0	0	0	0
Adjusted net profit	659	528	706	762	814

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	1,879	1,659	2,276	3,802	3,778
Other current liabilities	60	41	1,294	1,996	2,147
Provisions	135	97	0	38	41
Debt funds	1,698	1,937	1,737	1,737	1,237
Other liabilities	0	0	0	0	0
Equity capital	215	215	215	215	215
Reserves & surplus	3,802	4,254	4,917	5,594	6,236
Shareholders' fund	4,017	4,469	5,132	5,808	6,451
Total liabilities and equities	7,788	8,202	10,439	13,381	13,654
Cash and cash eq.	4	211	1,044	3,611	3,749
Accounts receivables	3,125	2,963	4,379	4,095	3,778
Inventories	1,610	1,450	1,526	1,755	1,889
Other current assets	297	330	340	351	315
Investments	0	0	0	0	0
Net fixed assets	2,288	2,445	2,948	3,368	3,723
CWIP	157	610	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(33)	(6)	(6)	(6)	(6)
Other assets	341	199	207	207	207
Total assets	7,788	8,202	10,439	13,381	13,654

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	1,006	951	1,113	1,241	1,359
Interest expenses	(81)	(136)	(85)	(87)	(74)
Non-cash adjustments	(4)	(13)	(15)	(14)	(14)
Changes in working capital	(609)	154	263	2,312	349
Other operating cash flows	(4)	(4)	0	0	0
Cash flow from operations	308	952	1,276	3,452	1,620
Capital expenditures	(886)	(1,033)	(301)	(900)	(900)
Change in investments	0	0	0	0	0
Other investing cash flows	4	13	15	14	14
Cash flow from investing	(882)	(1,020)	(286)	(886)	(886)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	275	239	(200)	0	(500)
Interest expenses	(81)	(136)	(85)	(87)	(74)
Dividends paid	(52)	(71)	(43)	(85)	(171)
Other financing cash flows	12	(28)	0	0	0
Cash flow from financing	155	4	(328)	(172)	(745)
Changes in cash and cash eq.	(419)	(65)	662	2,394	(11)
Closing cash and cash eq.	4	211	1,044	3,611	3,749

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	30.7	24.6	32.9	35.5	37.9
Adjusted EPS	30.7	24.6	32.9	35.5	37.9
Dividend per share	2.4	3.3	2.0	4.0	8.0
Book value per share	187.1	208.1	239.0	270.5	300.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	0.3	0.4	0.3	0.2	(0.1)
EV/EBITDA	1.6	2.6	2.0	1.2	(0.6)
Adjusted P/E	13.2	16.4	12.3	11.4	10.7
P/BV	2.2	1.9	1.7	1.5	1.3

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	64.2	75.5	73.5	74.8	74.8
Interest burden (PBT/EBIT)	92.7	83.7	91.8	92.1	93.6
EBIT margin (EBIT/Revenue)	11.9	9.2	11.8	10.4	10.1
Asset turnover (Revenue/Avg TA)	175.9	150.0	134.0	148.1	150.9
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.3	1.2
Adjusted ROAE	17.7	12.4	14.7	13.9	13.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	38.5	(2.1)	(2.1)	20.0	7.6
EBITDA	40.8	(14.2)	15.5	9.2	7.8
Adjusted EPS	29.4	(19.9)	33.8	7.9	6.8
Profitability & Return ratios (%)					
EBITDA margin	15.6	13.7	16.2	14.7	14.7
EBIT margin	11.9	9.2	11.8	10.4	10.1
Adjusted profit margin	7.1	5.8	7.9	7.1	7.1
Adjusted ROAE	17.7	12.4	14.7	13.9	13.3
ROCE	13.5	10.4	11.6	11.5	11.4
Working capital days (days)					
Receivables	108	122	151	145	125
Inventory	62	61	61	56	58
Payables	111	109	129	163	189
Ratios (x)					
Gross asset turnover	0.5	0.6	0.7	0.7	0.7
Current ratio	2.4	2.8	2.0	1.7	1.6
Net interest coverage ratio	(13.7)	(6.1)	(12.2)	(12.7)	(15.6)
Adjusted debt/equity	0.4	0.4	0.3	0.3	0.2

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

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

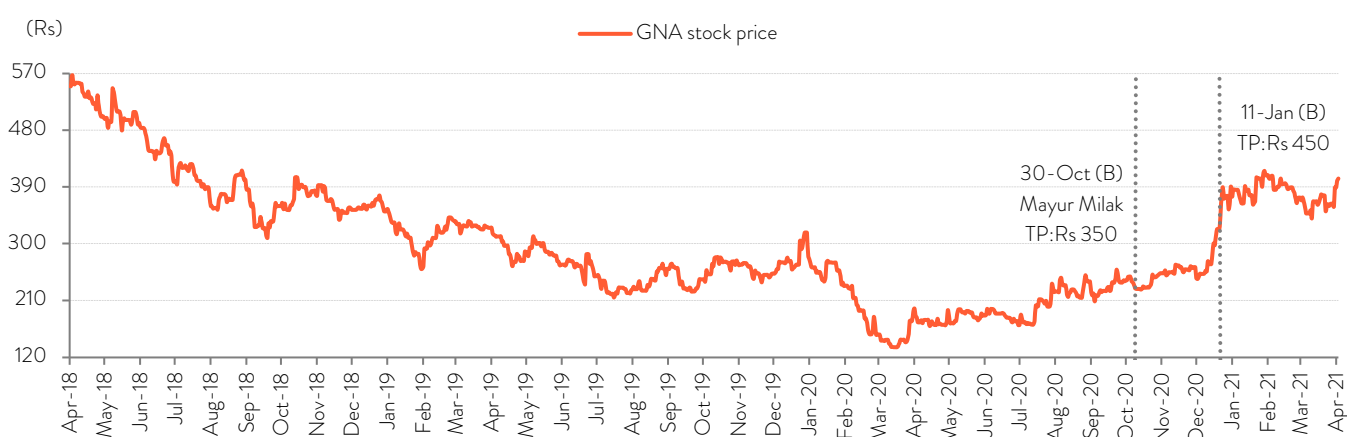
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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.

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



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

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