



COMPANY NAME	: G N A Axles
BSE Code	: 540124
Time Duration	: 1 year
CMP	: ₹410 (as on 19 July, 2018)
Target Price	: ₹540

The Mid Bridge for the month of July is GNA Axles. The company is one of the leading manufacturers of rear axle shafts used in highway and off-highway vehicular segments in India. The products find applications across on-highway vehicles (LCVs, MCVs, HCVs and buses, among others) and off-highway vehicles (agricultural tractors and machinery, forestry, construction equipment, defence and mining, among others). Since 2002-03, the company forayed into the international markets through exports and currently it generates 46% of the total revenue from exports. The products are widely consumed by leading OEM manufacturers in the US, Sweden, Turkey, Brazil, Italy, Germany, Spain, Mexico, Japan, UK, France, China and Australia, among others.

The company's net profit has grown at a CAGR of 30.5% over the last three years. On TTM basis, its ROE is 14.9% and the average of the last three years has been 16.9%.

**Growth in exports** : The company started its exports from 2002-03. Over the last 5-6 years, it has enhanced its footprint in the global markets and the exports have grown at a CAGR of 11% over FY12-17. The share of exports in FY12 was around 53%, but it had dipped to 48% in FY17 due to dip in orders from North America. However, revival was seen again in FY18 as the exports during the year rose by 28% YoY. Other than North America, the company's despatches to Europe, Australia and South America have grown significantly.

The company's business to North America and Latin America in FY18 has grown by 46% and 98% YoY, respectively. We expect company's exports to increase going forward, led by the recovery in the commercial vehicles segment in Europe and North America and also its diversification into the North American SUV market.

**Growing market share in domestic business** : Over the years, the company has gained significant market share in M&HCV and Off-highway (OH) vehicles segments. Its market share in the M&HCV segment has been around 35-40% as it supplies to biggies like M&M, Eicher Motors, Bharat Benz, Ashok Leyland, etc. Also, in the OH segment, its share is around 80-85% and it supplies to companies like M&M, Escorts, John Deere, etc. Currently, the company's monthly order inflow has increased from Rs 62 crore to Rs 75 crore, depicting its strong growth story. The

healthy growth in tractor segment has driven the domestic business of the company and we expect it to continue to be the key driver.

**Strong balance sheet post-IPO** : The IPO in FY17 helped the company to recapitalize the balance sheet. The IPO helped the company raise total funds of Rs 130 crore and the company utilised the net proceeds for the purchase of plant and machinery and meeting its working capital requirements. Also, the company had debt of Rs 138 crore in FY16 which has come down to Rs 124 crore in FY18. Thereby, the interest cost in FY18 has declined considerably leading to rise in net profits. With such regular repayment of debt, we expect the company's bottomline would show a northward trend.

**Management Outlook** : For FY19, the management has estimated growth of 15-20% in the topline. It expects the margins to continue to be in the range of 15-16% due to high raw material prices. In FY18, the company had expected growth of 13-15%, but actually over the year, it grew by 31% YoY. The company has set a target to achieve a turnover of Rs 1000 crore by 2020. The plant capacity of the company was four million components and the capacity utilisation by the end of FY18 stood around 80-85%. In FY19, there will be addition of more 5,00,000 components in the existing set-up and another 5,00,000 components in the new set-up in FY20.

**Financial Performance** : For FY18, the company clocked revenue of Rs 670 cr. delivering strong growth of 31% YoY. The EBITDA for the year grew by 28.8% YoY, led by growth in revenue. Its PAT for the year ballooned by 71.8% YoY to Rs 50.8 cr from Rs 29.6 cr in FY17. The PAT margin improved from 5.7% to 7.5% in FY18. Through its IPO in 2016, the company's balance sheet grew stronger with debt-equity ratio improved from 1.7x in FY15 to 0.36x in FY18.

The company has reported highest ever quarterly revenue of Rs 212.58 cr in Q1FY19, robust growth of 39.3% YoY, led by strong demand in the domestic tractor and M&HCV segments. Also, growth in exports led to rise in the top-line. The EBITDA for the quarter rose by 37.9% YoY from Rs 22.9 cr to Rs 31.6 cr.

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PAT jumped by 26.3% from Rs 11.08 cr to Rs 14 cr in Q1FY19 on YoY basis.

**Valuation :** The company is trading at TTM P/E of 19.2x with TTM EPS of Rs 23.7. For FY18, it has delivered ROE and ROCE of 14.9% and 22.2%, respectively. We expect the company would deliver growth on the back of robust demand in the domestic and ex-

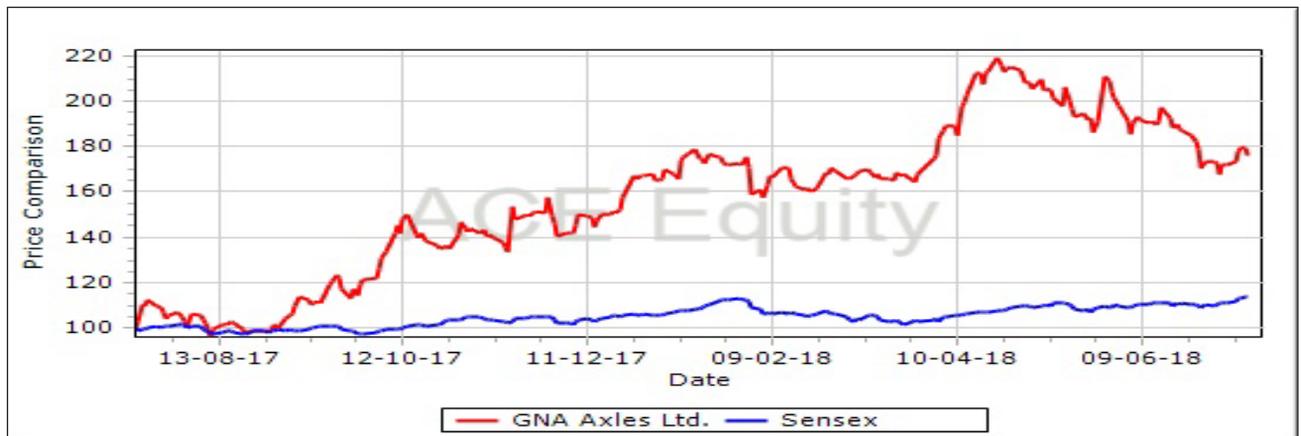
ports business. The SUV segment in North America is growing and also the LCV segment is on the verge of robust growth. Over the next 2-3 years, the growth in these segments would reflect in the topline and margins of the company. We see a potential upside of 33% with a target price of Rs 540 over a period of one year. Considering the market volatility, we urge investors to invest in tranches.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	670.14	513.41	508.52	425.87	401.58
Total Income	673.01	516.32	508.94	430.64	404.25
Total Expenditure	567.09	432.97	426.17	369.66	353.23
PBIDT	105.92	83.35	82.77	60.98	51.02
PAT	50.88	29.60	25.96	14.99	14.56
Dividend %	20.00				
Adj. EPS(Rs)	23.71	13.79	17.12	9.88	9.60

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201906	201803	Q on Q Var%	201806	Y on Y Var%
Net Sales	212.58	204.52	3.94%	152.52	39.38%
Total Expenditure	180.96	175.01	3.40%	129.60	39.63%
PBIDT (Excl OI)	31.62	29.52	7.12%	22.92	37.96%
PAT	14.00	16.45	-14.91%	11.08	26.35%
PBIDTM% (Excl OI)	14.87	14.43	3.05%	15.03	-1.06%
PATM%	6.58	8.04	-18.16%	7.26	-9.37%
Adj. EPS(Rs)	6.53	7.67	-14.91%	5.17	26.35%



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