

## GNA Axles Ltd.

8<sup>th</sup> September, 2016

### Rating:



### Issue Summary:

<b>Price band (Rs)</b>	205-207
<b>Face Value (Rs)</b>	10
<b>Market Lot</b>	70 shares
<b>Opens</b>	14 <sup>th</sup> Sep, 2016
<b>Closes</b>	16 <sup>th</sup> Sep, 2016
<b>Fresh Issue (Rs)</b>	130 cr
<b>OFS</b>	-
<b>Listing</b>	BSE, NSE

### Issue Break Up:

<b>QIB portion</b>	50%
<b>NIB portion</b>	15%
<b>Retail portion</b>	35%

### Book Running Lead Managers:

➤ PNB Investment Services Ltd.
➤ Ambit Private Ltd.

### Registrar

➤ Link Intime India Pvt. Ltd.
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### Company & Business Profile

Established in 1993, GNA Axles Ltd. is among the leading manufacturers of rear axle shafts used in on-highway and off-highway vehicular segments in India. Since its first supplies in 1996-97 and first exports in 2001, company has grown to production levels of more than 2.26 million components in FY16.

Company manufactures and supplies a diverse range of rear axle shafts, other shafts and spindles for the on-highway segment, i.e. for LCVs, MCVs and HCVs and other transport vehicles such as buses. It also manufactures and supplies a diverse range of rear axle shafts and other shafts for the off-highway segment, i.e. for agricultural tractors and machinery, forestry and construction equipments, electric carts and other specialty vehicles used in mining and defence sectors. Company also manufactures solid and hollow spindles used in the axle assembly for various vehicles and equipments in the on-highway segment which they supply to their export customers.

Company has a broad customer base for both the on-highway and off-highway segments and customers are based in India and overseas. Customers primarily include OEMs such as Mahindra & Mahindra Limited, John Deere, TAFE, and tier-1 suppliers to OEMs such as Automotive Axles Limited, Meritor HVS AB and Dana Limited.

Company exports rear axle shafts, other shafts and spindles to various countries including USA, Sweden, Turkey, Brazil, Italy, Germany, Spain, Mexico, Japan, UK, France, China and Australia. Major global customers include Meritor HVS AB, John Deere, Transaxle Manufacturing of America, Dana Limited and Kubota Corporation.

### Objects of the Issue

The issue proceeds would be utilized for

- Purchase of plant and machinery.
- To meet the working capital requirements.

### Investment Positives

- GNA Axles is among the leading manufacturers of axle shafts in India.
- Company has diverse product range of axle shafts and spindles.
- Strong long term customer relationships and diversified customer base.
- Strong engineering, product development and technological capabilities.
- Sustained financial performance.

### Concern

- High dependence on certain clients.
- Exports generate about 55% of the revenue; currency exchange rate fluctuations could have an adverse effect.



## Outlook

The company has reported steady growth over the years. For FY11-16 revenue for the company has grown at a CAGR of 10% to Rs 509 cr while net profit for the company grew at a CAGR of 24% for the same period. Return on Net worth for the company improved from 16.4% in FY11 to 20.7% in FY 16. Rising share of exports, which grew from 34.6% in FY11 to 54.7% in FY16, has helped company improve its EBITDA margin to 15.4% in FY16 against 11.2% reported in FY11. Debt/Equity for the company stood for FY16 at 0.95.

The rear axle shaft and spindle volume is estimated to grow at a CAGR of 10-11% and 11-12%, respectively between fiscal 2015 and fiscal 2020. The commercial vehicle sales are expected to grow over the next five years on improvement in industrial activity and the government's focus on infrastructure project execution. Implementation of GST is expected to speed up the evolution of the hub-and-spoke model for transportation, where small CVs are used for last mile or spoke distribution, and HCVs for hub-to-hub transportation. This is seen boosting commercial vehicle growth in the coming years and thus the revenue potential for the company.

## Valuation

The issue has been offered in a price band of Rs 205-207 per equity share. At the upper price band of Rs 207 the stock is available at P/E and P/B of 12.1(x) and 2.3(x) based on FY16 financials. The issue looks fairly valued against its competitor. We have "2 star" rating for the issue.

## Peer Group Comparison (Mar 16, Rs in Cr)

Company	Total Income	EPS	P/E (x)	P/B (x)	RoNW (%)	NAV	FV
GNA Axles Ltd.	509	17.1	12.1	2.3	20.7	91.2	10
Talbros Engineering Ltd.	139	13.3	13.8	1.5	9.9	141.5	10

## Financials (Rs in Cr)

Particulars	Mar-16	Mar-15	Mar-14	Mar-13
Total Income	509	431	404	349
Total Expenditure	426	370	353	305
PBIDT	83	61	51	44
PBIT	56	38	34	30
PBT	39	21	18	18
PAT	26	22	15	13
Cash Profit	53	45	32	26
Net Worth	138	113	104	90
Cash and Bank balance	1	0	1	1
Cash Flow from Operations	55	27	29	51
Free Cash flow	29	5	-35	-15
Debt to Equity(x)	0.9	1.4	1.4	1.5
Current Ratio(x)	1.1	1.0	1.1	1.0
ROCE(%)	20.8	14.6	14.1	14.6
RONW(%)	20.7	19.9	15.0	15.3
Adjusted EPS	17.1	14.2	9.6	8.4
Enterprise Value	144	168	165	146

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