



Farsight

## MORNING FARSIGHT

Tuesday, November 06, 2018

**GNA AXLES**

**CMP:RS 387**

**TRGT:RS 450**

**TIME HORIZON: 1 YEAR**

GNA Axles, manufacturing axle shafts and spindles (ranging from 2 kg to 150 kg) for CV, tractors and off-highway equipments, with manufacturing facilities located in Hoshiarpur, Punjab with an installed capacity of —4 million pieces per annum, as also, catering to USA, Brazil, Sweden, Mexico, Italy, Spain, etc., has posted good earnings for Q2FY19, with Income rising to Rs 227 cr from Rs 213 cr QoQ and Rs 162 cr YoY (+6.5% QoQ, 40% YoY). This has resulted in EBITDA of Rs 36 cr for Q2FY19 against Rs 32 cr (QoQ and Rs 25 cr YoY, a growth of 13%QoQ and 44%YoY. PAT is placed at Rs 16.2 cr against Rs 14 cr QoQ and Rs 10.7 cr YoY, leading to an EPS of Rs 7.57for Q2FY19 and Rs 14.09 in I11FY19, which was at Rs 23.71 FY18. On an estimated EBITDA of Rs140 cr for FY19 and EPS of Rs 27, stock is trading at an EV/EBITDA of 6.3x and PE of 14.3x, which are seen reasonable, as demand continues to remain robust for CV & Tractors, company is taking further capacity expansion and promoter stake has steadily remained over 65% for past many quarters Recall that the company undertook capacity enhancement project in FY17-18 for enhancing its forging and machining capacity to —4 million units per annum (-3 million units, as on March 31, 2017). The project has achieved its commencement of commercial production in March-18 within the cost and time estimates and margins are likely to improve as capacity ramps up. Further, the company is enhancing its forging and machining capacity to 5 million units per annum at a total project cost of —Rs 90 cr, funded completely through term loans. Besides this, it is foraying into SUV and LCV axle shaft business. The company is already in the process of setting up a manufacturing facility with a capacity of 600,000 units a year, which may be increased depending upon market conditions. The company is targeting clients from North America, Europe and India in that order and this could be an Rs 100 cr opportunity for the company. The management has guided topline growth of over 20% in FY19 and indicated that EBIDA margin will remain stable in the 14.5-15 percent range going forward (H1FY19 EBITDA margin 15.4%). Share ruling at Rs387 can move to Rs 450 in 1 year. Buy as an investor only.

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.