



G N A Axles- IPO Note

Issue Details	
Issue Opens	14 th Sep'2016 to 16 th Sep'2016
Issue Type	Fresh Issue
Offer Price	Rs. 205-207
Pre-issue Shares outstanding (cr)	1.52
Shares offered in IPO (Fresh issue) (cr)	0.63
Nos. of shares post issue (cr)	2.15
IPO size (Rs.cr)	130.4 (at upper price band)
Promoter Holding pre-IPO	100.0%
Promoter Holding post-IPO	70.7%
FY16 PAT	26.0 cr
TTM P/E at Upper Band	12.0X

About the Company:

Incorporated in 1993, G N A Axles Ltd is Punjab based manufacturer of axle shaft used in on-highway (LCVs and M&HCVs) and off-highway vehicular segments. Company manufactures a large variety of rear axle shafts and have the capacity to manufacture rear axle shafts of up to 165 kg input weight. In addition, they also manufacture a range of spindles and other shafts for automotive application. The company has an annual installed capacity of 2.3mn for rear axle shafts, 0.3mn for spindles, and 0.4mn for other shafts against which company manufactured 2.26mn components. Real axle shafts form ~84% of the total sales of the company

	FY12	FY13	FY14	FY15	FY16
Domestic	257.2	228.7	258.2	220.0	227.6
% of Total Sales	65	66	64	52	45
Exports	136.2	117.3	143.3	205.8	274.9
% of Total Sales	35	34	36	48	55
Total Sales	393.4	346.1	401.5	425.8	502.5

Objects of the issue:

GNA is raising Rs. 130 crore via IPO of which it will utilize ~Rs. 65 crore towards new Plant and Machinery for forging, heat treatment and machine shop, ~Rs. 15 crore towards de-bottlenecking of existing capacity and remaining Rs. 50 crore to meet working capital requirements and general corporate purposes.

Core strength of the company:

- Strong customer relationship and wide base:**

GNA has a broad customer base for both the on-highway and off-highway segments in India and overseas. During FY16, company's domestic sales and export sales constituted 45.29% and 54.71% of their revenue respectively. For Fiscal 2016, domestic sales to top five customers and top ten customers is 66.1% and 89.3% of total domestic sales, respectively.

Company's customers include global OEMs and tier-1 suppliers. Its overseas customers include Dana Limited, John Deere, Kubota Corporation and Meritor HVS AB. In domestic market its clients include leading Indian OEMs and tier-1 suppliers such as Claas India Private Limited, TAFE, International Tractors Limited, Escorts Limited, Axles India Limited, Automotive Axles Limited and Mahindra & Mahindra Limited. None of the client contributes more than 10% to the top line.

Client	Revenue Contribution FY16 (%)
M&M Ltd.	8.3%
Automotive Axles India	7.1%
John Deere India	6.9%



- Market leader in domestic market

As per CRISIL report, GNA is among the leading manufacturers of axle shafts for commercial vehicles and off-highway vehicles in India. Given the fact that it operates with all major OEMs, it gives them a chance to increase their wallet size with them. GNA also has considerable presence in the export market. Its market share can be estimated at ~36%.

- Strong engineering and product development capabilities

With more than 50% of sales coming from exports, the company places strong emphasis on engineering and product development to enhance its product range and improve its manufacturing processes. The company has in-house metallurgical and metrological laboratories and It has offered a number of cost reduction and value engineering proposals to its customers on the basis of in-house improvements.

Risks and Concerns

- Lack of diversification:

GNA Axles is only present in CV and Tractor Segment, which makes its business highly cyclical and subject to erratic growth. Company derives ~90% of revenue from MHCV segment.

- No replacement demand

Company's business is solely dependent on OEM and Tier I suppliers and has negligible aftermarket sales. The replacement demand for axles and spindles is poor which disables recurring sale of company's product. Presence of replacement sales assures revenue visibility when there is slackness in OEM demand.

- Sustainability of high margins questionable

Being an auto ancillary company and catering only to OEMs, Company has reported margins of 15-16% in last two years, sustainability of which is questionable. No other Auto ancillary company in the industry is able to earn such a high margins. If OEM sees weakness in their demand they would put pressure on Auto Ancs to save its profitability. Also uptick in RM prices would lead to moderation in margins.

- High exposure to overseas market:

Nearly 55% of company's sales comes from export markets which results in heavy forex exposures. Further, with Class 8 trucks not doing well (10% of GNA's exports) and Europe CV market expected to peak out, company would face some headwinds in export markets.

Valuation and Recommendation

- At upper price band of Rs. 207, the stock is valued at 12X which is on the lower side but given the cyclicity of business, heavy exposure to overseas market and lack of replacement demand, major re-rating in the multiples looks unsure.
- We believe that the margins at current levels are not sustainable and expect moderation going ahead.
- Given the above, we believe that the stock is fairly valued and one can avoid the issue.


Financial Summary
Statement of Profit & Loss:

Particulars	FY12	FY13	FY14	FY15	FY16
Income					
Revenue from Operations	393.4	346.1	401.6	425.9	502.6
Export Incentives	5.2	2.9	2.4	4.2	6.0
Total Revenue	398.6	348.9	404.0	430.1	508.5
Expenses					
Raw Material Consumed	274.1	231.3	277.9	293.4	330.3
Change In Inventories	-4.9	2.5	-4.2	-14.9	-12.8
Employee Benefits Expenses	13.8	16.1	19.3	20.8	23.7
Other Expenses	63.8	55.2	60.2	70.3	84.9
Total Expenditure	346.9	305.1	353.2	369.7	426.2
EBITDA	51.7	43.8	50.8	60.4	82.4
EBITDA Margin	0.1	0.1	0.1	0.1	0.2
Other Income	0.0	0.1	0.2	0.6	0.4
Depreciation & Amortization	12.4	13.6	17.4	23.0	27.2
EBIT	39.4	30.3	33.7	38.0	55.6
Finance Cost	11.5	12.7	15.2	17.3	16.3
PBT	27.8	17.6	18.5	20.7	39.3
Tax Expenses					
Current Tax	9.0	4.9	3.9	5.8	15.7
Deferred Tax (Credit) Charge	1.9	8.0	1.3	-6.6	-2.3
Total Tax Expenses	10.9	12.8	5.2	-0.9	13.4
Profit For The Period	16.9	4.8	13.3	21.6	26.0
EPS	11.2	3.2	8.8	14.3	17.2

Summary of Cash Flow Statement

Particulars	FY12	FY13	FY14	FY15	FY16
Operating profit before working capital changes	50.7	42.9	50.1	59.2	81.2
Changes in working capital	13.9	2.1	-10.1	-26.1	-9.7
Income tax paid	-9.1	-4.9	-4.1	-6.1	-16
Cash Flow from Operations	27.7	40.1	35.9	27.0	55.4
Cash Flow from Investing activities	-23.0	-54.3	-60.9	-14.4	-16.3
Cash Flow from Financing activities	-5.2	14.8	24.0	-12.6	-38.8
Net Changes in Cash and Bank Balance	-0.5	0.7	-1.0	-1.0	0.2
Opening Cash & Cash Equivalents	1.4	0.8	1.5	0.5	0.4
Closing Cash & Cash Equivalents	0.9	1.5	0.5	0.5	0.6



Balance Sheet:

Particulars	FY12	FY13	FY14	FY15	FY16
Equity Share Capital	15.2	15.2	15.2	15.2	15.2
Reserves & Surplus	58.5	63.4	76.4	97.6	123.4
Shareholder's Funds	73.7	78.5	91.6	112.8	138.3
Non-Current Liabilities					
Long Term Borrowings	25.8	43.1	54.6	60.6	42.2
Deferred Tax Liabilities	3.4	11.3	12.6	6.0	3.7
Other Long Term Liability	-	-	16.1	-	-
Total Non-Current Liabilities	29.2	54.4	83.3	66.6	45.9
Current Liabilities					
Short Term Borrowings	46.8	57.4	58.0	69.2	65.9
Trade Payables	93.7	108.2	122.4	147.8	163.0
Other Current Liabilities	15.1	14.5	25.8	27.8	28.6
Short-Term Provisions	9.0	4.9	0.8	2.3	4.8
Total Current Liabilities	164.6	185.0	207.0	247.1	262.3
Total Liabilities	267.5	317.9	381.9	426.5	446.5
Non-Current Assets					
Fixed Assets	95.4	136.5	169.1	159.8	147.3
Long Term Loans & Advances	2.1	1.7	12.9	14.1	14.1
Other Non-Current Assets	-	-	-	0.2	2.2
Total Non-Current Assets	97.5	138.2	182.0	174.0	163.6
Current Assets					
Inventories	53.1	52.9	61.2	91.9	91.4
Trade Receivables	84.8	86.6	111.3	121.9	162.1
Cash & Bank	0.8	1.5	0.5	0.4	0.7
Short-Term Loans & Advances	10.0	13.6	1.9	8.7	4.2
Other Current Assets	20.8	25.0	24.9	30.0	24.6
Total Current Assets	170.0	179.6	200.0	252.5	282.9
Total Assets	267.5	317.9	381.9	426.5	446.5

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