

Established in 1993, GNA Axles is today among the leading manufacturers of rear axle shafts used in on-highway and off-highway vehicular segments in India (Source: CRISIL Report). Since its first supplies in 1995 and its first exports in 2002-2003, the Company has grown to production levels of more than 2.26 million components in Fiscal 2016. Engaged in manufacturing and supplying a diverse range of rear axle shafts, other shafts and spindles for the on-highway segment, i.e. for light commercial vehicles ("LCVs"), medium commercial vehicles ("MCVs") and heavy commercial vehicles ("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 defense sectors. It also manufactures solid and hollow spindles used in the axle assembly for various vehicles and equipments in the on-highway segment which it supplies to its export customers. In Fiscal 2016, GNA Axles domestic sales and export sales constituted 45.29% and 54.71% of revenue.

The Company has two manufacturing facilities: Unit I located in village Mehtiana, district Hoshiarpur, Punjab and Unit II located at village Gulabgarh Jattan, district Kapurthala, Punjab. Both of its manufacturing facilities are ISO/TS 16949:2009 certified for manufacture of rear axle shafts, other shafts and spindles for automotive applications.

As of March 31, 2016, its manufacturing units have a total annual manufacturing capacity of 2.30 million rear axle shafts, 0.40 million other shafts and 0.30 million spindles. The manufacturing facilities include machinery imported from various countries including Italy, Germany, Japan, China and Taiwan, used for various processes such as materials testing, forging, heat treatment, machining, induction hardening and packaging. Some of its significant machineries include 13" upsetter, direct drive screw press supported by robots, Lasco extrusion press supported by robots and electric heat treatment furnace, and direct drive screw press supported by robots for heavy axle shafts forgings. The machineries enable it to manufacture rear axle shafts up to input weight of 165 kg.

GNA Axles has a broad customer base based in India and overseas. Its customers primarily include original equipment manufacturers ("OEMs") such as Mahindra & Mahindra Limited, John Deere, Tractors and Farm Equipment Limited ("TAFE"), and tier-1 suppliers to OEMs such as Automotive Axles Limited, Meritor HVS AB and Dana Limited. In Fiscal 2016, the Company's domestic sales and export sales constituted 45.29% and 54.71% of its revenue from operations, respectively, on a consolidated basis. The domestic customers in the on-highway segment include major tier-1 suppliers such as Automotive Axles Limited and Dana Limited and HCV manufacturer such as Meritor HVS AB. In the off-highway segment, its domestic customers include major tractor manufacturers such as Mahindra & Mahindra Limited, TAFE, Escorts Limited and Claas India Private Limited. It also 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. GNA Axles major global customers include Meritor HVS AB, John Deere, Transaxle Manufacturing of America, Dana Limited and Kubota Corporation. For Fiscal 2016, domestic sales to top five customers and top ten customers is 66.1% and 89.3% of total domestic sales, respectively, whereas exports sales to top five and top ten customers is 80.2% and 96.5% of total export sales of the company, respectively.

|                                      |   |
|--------------------------------------|---|
| Issue date                           | 14 -16 September, 2016                          |
| Finalisation of basis of allotment   | Sep. 21, 2016                                   |
| Initiation of refunds                | Sep. 22, 2016                                   |
| Credit of equity shares in demat a/c | Sept. 23, 2016                                  |
| Listing                              | Sep. 26, 2016                                   |
| Type of issue                        | Fresh issue – Rs. 1304.1 mn                     |
| Pre /Post Issue Promoter Holding     | 100%/70.4%                                      |
| Face Value                           | 10  |
| Price Band                           | Rs. 205-207                                     |
| Market Lot                           | 70 shares                                       |
| Min. order quantity                  | 70 shares                                       |
| Post issue Market Cap.               | Rs. 4,442 mn                                    |
| Issue structure                      | QIB – 50%, Non institutional – 15% Retail – 35% |
| BRLM                                 | PNB Investment Services, Ambit                  |
| Registrar to the issue               | Link Intime                                     |

| Y/e 31 Mar (Rs. mn)  | FY16  | FY15  | FY14  |
|----------------------|-------|-------|-------|
| Total Income         | 5,089 | 4,306 | 4,042 |
| EBITDA               | 828   | 610   | 508   |
| EBITDA (%)           | 16.3  | 14.2  | 12.6  |
| PAT                  | 260   | 216   | 133   |
| PAT (%)              | 5.11  | 5.01  | 3.29  |
| Networth             | 1361  | 1127  | 916   |
| Book Value (Rs.)     | 89.77 | 74.29 | 60.37 |
| Post issue EPS (Rs.) | 12.11 | 10.06 | 6.19  |
| ROE (%)              | 18.77 | 19.15 | 14.49 |

#### Investment Rationale and Recommendation

The Company has witnessed a topline CAGR of 13% over the period FY13-16. In the same period, EBITDA has registered a decent CAGR of 23% to Rs. 828 mn in FY16. PAT has seen impressive CAGR of 75% over FY13-16. At the upper end of the price band of Rs. 207, the IPO is cheaply valued at a P/E of 17x at Post issue FY16 EPS of Rs. 12.11 with its superior financial profile as compared to its immediate peer Talbros Engineering trading at 18x with OPM of 8.25% & ROE of 9.37%.

With due consideration to factors like a) among the leading manufacturers of axle shafts in India, b) diverse product range of axle shafts and spindles, c) strong engineering, product development and technological capabilities, d) long term customer relationships and diversified customer base, e) marquee global clients like Meritor, John Deere, Transaxle Manufacturing of America etc. f) sustained financial performance and strong financial position, h) net debt/equity of 0.8x, i) positive operating cashflow for last 5 years, j) good ROE of 18.77 percent, we recommend to SUBSCRIBE the issue.



## Objects of the issue

The Net Proceeds from the Issue will be utilised towards the following objects: Purchase of plant and machinery; to meet working capital requirements; and General corporate purposes.

| Particulars                          | Amount (Rs. in mn.) |
|--------------------------------------|---------------------|
| Purchase of Plant & Machinery        | 800.73              |
| To meet working capital requirements | 350.00              |
| General Corporate purposes           | [.]                 |

Source: RHP

## Promoters & Management

The Promoters of the company are:

1. Mr. Jasvinder Singh Seehra
2. Mr. Ranbir Singh
3. Mr. Gurdeep Singh

Promoters have an average of approximately 28 years of experience in the engineering and auto component manufacturing sector. They have been on the Board of the Company since its inception in 1993 and have played a pivotal role in the innovation, success and growth of the Company.



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**For research related queries contact:**

Mr. Akash Jain – Vice President (Research) at [research@ajcon.net](mailto:research@ajcon.net), 022-67160431 (D)

CIN: L74140MH1986PLC041941

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**Website:** [www.ajcononline.com](http://www.ajcononline.com)

**Corporate and Broking Division**

408 - (4<sup>th</sup> Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

**Registered Office:**

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40