



SMC Ranking

★ ★ ☆ ☆ ☆ (1.5/5)

Issue Highlights

Industry	Financial services
Total Issue	6,300,000
Issue Size Cr.	129-130
Price Band (₹)	205-207
Offer Date	14-Sep-16
Close Date (QIBs)	16-Sep-16
Face Value	10
Lot Size	70 Equity Share

Issue Composition

	In shares
Total Issue for Sale	6,300,000
QIB	3,150,000
NIB	945,000
Retail	2,205,000

Indicative Timetable

Event	Indicative Date (On or About)*
Bid/Issue Closing Date	Sept 16, 2016
Finalisation of Basis of Allotment with the Designated Stock Ex.	*Sept 21, 2016
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	*Sept 22, 2016
Credit of Equity Shares to demat accounts of Allottees	*Sept 23, 2016
Commencement of trading of the Equity Shares on the Stock Ex.	*Sept 26, 2016

Book Running Lead Manager

Ambit Private Limited
PNB Investment Services Ltd

Name of the registrar

Link Intime India Private Limited

Shareholding Pattern (%)

Particulars	Pre-issue	Postissue
Promoters and promoters group	100.00	70.65
QIB	0.00	14.67
NIB	0.00	4.40
Retail	0.00	10.27
Total	100	100

About the Company

Incorporated 1993, G N A Axles Ltd is India based manufacturers of rear axle shafts, other shafts and spindles used in on-highway and off-highway vehicular segments in India. The company is engaged in manufactures and sells auto components for the four-wheeler industry. It manufactures and supplies a range of rear axle shafts, other shafts, and spindles for the on-highway segment vehicles, including light commercial vehicles, medium commercial vehicles, and heavy commercial vehicles, as well as other transport vehicles, such as buses. GNA Axles exports their products to various countries, including the United States, Sweden, Turkey, Brazil, Italy, Germany, Spain, Mexico, Japan, the United Kingdom, France, China, and Australia. They have two manufacturing facilities: Unit I located in village Mehtiana, district Hoshiarpur, Punjab and Unit II located at village Gulabgarh Jattan, district Kapurthala, Punjab.

Competitive Strengths

Among the Leading Manufacturers of Axle Shafts in India:

The company is among the leading manufacturers of Axle Shafts for commercial vehicles and off-highway vehicles in India (Source: CRISIL Report). It has a considerable presence in export markets which is owed to experience in the development and manufacturing of axle shafts.

Diverse Product Range of Axle Shafts and Spindles:

The company currently manufactures a large variety of rear axle shafts and has the capacity to manufacture rear axle shafts of up to 165 kg input weight. It has established a strong presence across various automotive segments including commercial vehicles and off-highway vehicles. The company believes that it is insulated to a degree against fluctuation in demand for a specific product because of the wide range of products that it currently offers and its ability to develop new products required by its customers.

Strong Long Term Customer Relationships and Diversified Customer Base:

The company believes that it has a strong and established relationship with its customers domestic and overseas customers are Dana Limited (USA, Mexico and Brazil), John Deere (Spain and USA), Kubota Corporation (Japan) and Meritor HVS AB (Sweden, Italy, Brazil, USA), as well as 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. It has a long standing relationship with Mahindra & Mahindra Limited and John Deere, which are its two largest customers in the off-highway segment in India, and Automotive Axles Limited which is its largest customer in the on-highway segment in India.

Manufacturing Facilities with Large Capacity and Modern Machinery:

The company presently own two manufacturing facilities: Unit I located in village Mehtiana, district Hoshiarpur, Punjab and Unit II located at village Gulabgarh Jattan, district Kapurthala, Punjab. Its total manufacturing capacity as on March 31, 2016 was 2.30 million rear axle shafts, 0.40 million other shafts and 0.30 million spindles annually. Its manufacturing facilities are located near to facilities of some of its large customers such as International Tractors Limited, Mahindra & Mahindra (Swaraj division), Escorts Limited and New Holland Limited which it believes results in lower transportation and logistics cost.

Experienced Management and Skilled Employee Base:

The company is led by a management team and staffed with employees who have significant experience in the industry. The company has been focused on the recruitment, training and retention of a highly skilled employee base. As of March 31, 2016, it has 1,093 employees including 115 engineers and engineering diploma holders. This coupled with continuous on-site

Objects of the Issue

1. Purchase of plant and machinery;
2. To meet working capital requirements; and
3. General corporate purposes.

learning and training programmes has helped the company to develop and adopt new technologies, maintain high productivity and achieve faster product development cycle.

Strong Engineering, Product Development and Technological Capabilities:

The company places strong emphasis on engineering and product development to enhance its product range and improve its manufacturing processes. It has in-house metallurgical and metrological laboratories. It has offered a number of cost reduction and value engineering proposals to its customers on the basis of in-house improvements in manufacturing processes which resulted in low input cost and low operation cost.

Sustained Financial Performance and Strong Financial Position:

Its increasingly diversified geographical presence, use of modern manufacturing facilities and a broad customer base for both the on-highway and off-highway vehicular segments has led the company towards sustained growth in financial indicators including its revenue and profits (except for slowdown in Fiscal 2013 on account of general slowdown in the industry in which the Company operates), as well as a sustained improvement in its balance sheet position in the last five Fiscals.

Strategy

Focus on Exports from India:

As the globalisation trend continues and barriers to trade in various markets are reduced across the world, the company believes that an export oriented strategy will continue to offer its business advantages. It intends to leverage the low cost advantages of manufacturing in India. The company also aims to capitalise on the available tax incentives provided by the Government of India, such as export promotion capital goods and duty drawback schemes, to offer cost advantages to its overseas customers. The company aims to work closely with the global sourcing offices of its overseas customers to develop relationships and enhance its global customer base.

Diversify Product Portfolio and Expand Customer Base:

The Company says that it will continue its focus on development of new products as well as expanding its existing lines of products. It also intends to continue to diversify its customer base. The top ten domestic customers contributed to 89.29% of its domestic sales for Fiscal 2016, on a consolidated basis, as compared to 89.06% of its net sales for Fiscal 2015. Its top five overseas customers constituted 80.19% of its export sales for Fiscal 2016 as compared to 91.32% of its net sales for Fiscal 2015.

Continue to Focus on Quality, Cost Reduction and Delivery

The focus of the company on quality is exemplified through the ISO/TS-16949:2009 certifications that it has obtained for both its manufacturing units, with respect to its manufacturing processes. The company has undertaken several initiatives to reduce costs such as value engineering at die making to reduce the cost of input material, optimizing tool consumption by using designated tools for designated processes, shifting of heating from furnace oil/diesel to electricity to minimize the burning losses in forging and certain of its forging facilities are robotized to increase their capacity utilization.

Rationalization of plant and machinery, investment in new machines and increased automation to enhance capacity optimization:

The Company has full service capabilities across the product manufacturing value chain, including engineering, forging, machining, and quality testing. Each of these processes is systemized and most processes are carried out under one roof, which strengthens its capacity to meet customer demands satisfactorily and in accordance with delivery schedules. To achieve further rationalization, the company intends to acquire new machinery to bolster its machining facilities and ensure that there are no bottlenecks in its production lines. The company aims to purchase new machinery to be installed in all of its manufacturing processes which will expand its capacity. The company plans to acquire machinery in machine shop and

heat treatment shop for optimum capacity utilization of forging presses already installed such as screw press and deep extrusion press for spindles. The Company uses IT enabled business processes such as advanced computer aided design and analysis capabilities which accommodate a range of customer specifications.

Risk

A significant portion of the revenues is dependent on its exports: A significant portion of its revenues is dependent on its exports to its international customers. Any failure to fulfil the requirements of its international customers may adversely affect its revenues, result of operations and cash flows.

Customers may terminate supply contracts before completion: The company's customers have high and exacting standards for product quality and delivery schedules. Any failure to meet a customer's expectations could result in the cancellation or non-renewal of contracts.

If fails to identify and understand evolving industry trends: Changes in regulatory or industry requirements or in competitive technologies may render certain of its products obsolete or less attractive. Its failure to identify and understand evolving industry trends and preferences and develop new products to meet its customers' demands may adversely affect its business.

If fails to obtain or maintain approvals: The company requires certain statutory and regulatory approvals, licenses, registrations and permissions, and applications need to be made at the appropriate stages for its business to operate. If the company fails to obtain or maintain approvals or licenses required for its operations may adversely affect its operations.

Industry overview

The size of the Indian economy was ₹ 125.41 trillion in 2014-15, of which the services sector contributed around 52.5%, industry around 31.3% and remaining 16% was agriculture. Auto components production is driven by consumption by different end-user segments: OEMs, exports and the replacement market. OEM demand can be further segregated based on the various vehicle segments. In Fiscal 2015, auto components' consumption in India accounted for ₹2,572 billion, with OEMs accounted for nearly two-thirds of total auto component consumption. Among OEMs, cars and utility vehicle manufacturers remain the largest consumers. Engine parts have the biggest share in auto components production followed by drive transmission, steering parts and body & chassis. Domestic consumption of rear axle shafts and spindle demand from commercial vehicles and tractors in India accounts for approximately 2% of drive transmission and steering parts. Further, rear axle shafts and spindles find usage in construction equipments and sports utility vehicles ("SUVs"). A significant proportion of these components are exported from India as well Over the next five years, commercial vehicle sales are expected to grow due to improvement in industrial activity, steady agricultural output and strong focus on infrastructure project execution along with continued capacity constraints in the railways. Implementation of GST in the coming years will further expedite the evolution of the hub-and-spoke model for transportation in the country, where small CVs are used for last mile or spoke distribution, and HCVs for hub-to-hub transportation. This is expected to boost CV growth in the coming years.

Peer comparison

Company name	Total Operating Income	PAT	Mcap	EPS	P/E	P/BV	FV	Price	BV
Talbros engineering ltd	139.31	3.37	54.18	13.30	16.05	1.51	10.00	213.45	141.13
GNA Axles Ltd	508.53	25.93	444.33	12.08	17.13	1.65	10.00	207.00	125.17

Valuation

Considering the P/E valuation on the upper end of the price band of Rs. 207, the stock is priced at pre issue P/E of 12.11x on its FY16 EPS of Rs. 17.10. Post issue, the stock is priced at a P/E of 17.13 x on its EPS of Rs. 12.08. Looking at the P/B ratio at Rs. 207 the stock is priced at P/B ratio of 2.27x on the pre issue book value of Rs.91.18 and on the post issue book value of Rs. 125.17 the P/B comes out to 1.65x.

On the lower end of the price band of Rs.205 the stock is priced at pre issue P/E of 11.99x on its FY16 EPS of Rs. 17.10. Post issue, the stock is priced at a P/E of 16.97x on its EPS of Rs. 12.08. Looking at the P/B ratio at Rs. 205, the stock is priced at P/B ratio of 2.25x on the pre issue book value of Rs. 91.18 and on the post issue book value of Rs. 125.17 , the P/B comes out to 1.64x.

Outlook

The company claims to be the only well organized robotic manufacturing company providing all Shaft related services under one roof. However, a significant portion of its revenues is dependent on its exports to its international customers. A long term investors may consider investment in this issue. However, a short term investor can give a miss.

Annexure

Profit & Loss

₹ in Cr.

Particulars	31-Mar-16	31-Mar-15
Total Operating Income	508.53	430.08
Total expenditure	426.20	369.66
Operating Profit	82.33	60.42
OPM%	1.62	1.40
Other Income	0.42	0.57
PBDIT	82.75	60.98
Depreciation	27.17	22.98
PBIT	55.58	38.00
Interest	16.29	17.26
PBT	39.29	20.74
Tax	13.35	-0.86
Profit after tax	25.93	21.60

Balance Sheet

₹ in Cr.

Particulars	31-Mar-16	31-Mar-15
Non-current assets		
Fixed assets	147.31	159.33
Capital Work in progress	0.05	0.42
Long-term loans and advances	14.08	14.09
Other Non-current assets	2.16	0.15
Total Non- Current Assets	163.61	174.00
Current assets		
Other Current assets	24.57	29.60
Trade receivable	162.08	121.85
Inventories	91.37	91.94
Cash and bank	0.68	0.42
Short-term loans and advances	4.23	8.66
Total current assets	282.93	252.47
Total Assets	446.54	426.46
Non-current liabilities		
Long-term provisions	42.20	60.58
Deferred tax liabilities	3.72	6.01
Deposits	45.92	66.59
Current liabilities		
Short-term borrowings	65.87	69.19
Trade payables	163.07	147.80
Other current liabilities	28.64	27.81
Short-term provisions	4.76	2.27
Total current liabilities	262.34	247.06
Total	308.26	313.66
NET Worth	138.28	112.81
Net worth represented by:		
Share capital	15.17	15.17
Reserves and surplus	123.11	97.64
Net Worth	138.28	112.81



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RANKING METHODOLOGY

WEAK	★
NEUTRAL	★ ★
FAIR	★ ★ ★
GOOD	★ ★ ★ ★
EXCELLENT	★ ★ ★ ★ ★

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