

Automotive Axles (AUTAXL)

CMP: ₹ 1,950

Target: ₹ 2,375 (22%)

Target Period: 12 months

August 9, 2022

BUY

Healthy performance; best placed to play CV upswing

About stock: Established in 1981, Automotive Axles (AAL) is largest independent manufacturer of rear axle drive assemblies in India (primarily for CVs; M&HCV).

- As of FY20, rear drive axles comprise ~60% of its topline with brakes share at ~20% and other parts comprising the rest
- Counts all major OEMs as its clients in the CV domain with prominent names being Ashok Leyland, VECV Commercial Vehicles, M&M among others

Q1FY23 Results: The company reported a healthy performance in Q1FY23.

- Total operating income for Q1FY23 came in at ₹ 500 crore, down 10% QoQ
- EBITDA came in at ₹52 crore with margins at 10.3%, down 90 bps QoQ.
- PAT for the quarter stood at ₹30 crore, down 22% QoQ
- Management expects M&HCV volumes to grow ~25% in FY23E**

What should investors do? AAL's share price has increased at ~21% CAGR from ~₹ 734 in August 2017, thereby outperforming Nifty Auto index in that time.

- Retain **BUY** given cyclical recovery in CV space (M&HCV domain) with AAL a key beneficiary and the company making tangible efforts on diversification of its client base (targeting construction equipment, defence space)

Target Price and Valuation: Upgrading our estimates, we now value the company at a revised target price of ₹ 2,375 i.e. 20x P/E on FY24E EPS (earlier TP ₹ 2,140).

Key triggers for future price performance:

- With cyclical recovery in the domestic CV space, we expect sales to grow at a CAGR of ~27.3% in FY22-24E to ~₹ 2,415 crore in FY24E
- Technology support from ex-parent Meritor with capabilities in electric vehicle domain (E-Axle for heavy duty trucks). This, coupled with new co-promoter i.e. Cummins' intent to offer complete powertrain assembly solutions to its customers in the electric CV domain, bodes well for AAL
- Healthy b/s (net cash positive) and consistent FCF cash generation
- O/p leverage gains to result in 11.5% margin, 20%+ return ratios by FY24E

Alternate Stock Idea: Leaving aside AAL, in our auto OEM coverage we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with target price of ₹ 1,550



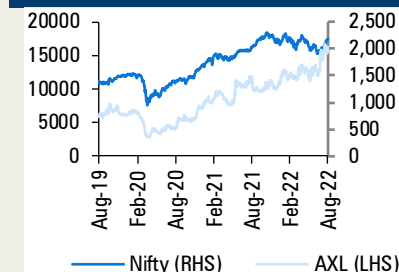
Particulars

Particulars	₹ crore
Market capitalisation	2,944.5
Total Debt (FY22)	14.6
Cash & Investment (FY22)	97.3
EV (₹ crore)	2,861.8
52 week H/L (₹)	2140 / 1,169
Equity capital (₹ crore)	15.1
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	71.0	71.0	71.0	71.0
FII	0.8	1.4	1.1	1.4
DII	13.6	13.5	14.5	13.3
Other	14.5	14.0	13.4	14.3

Price Chart



Recent event & key risks

- Posted healthy Q1FY23 numbers.
- Key Risk:** (i) Slower than anticipated growth prospects in the domestic M&HCV space (ii) Delay in margin recovery amid operating leverage gains with increase in scale of operation

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	1,939.0	952.0	905.6	1,490.6	4.9%	2,012.3	2,414.8	27.3%
EBITDA	229.0	93.3	65.8	134.7	3.4%	211.3	277.7	43.6%
EBITDA Margins (%)	11.8	9.8	7.3	9.0		10.5	11.5	
Net Profit	121.5	41.1	22.7	74.4	8.7%	130.0	179.3	55.3%
EPS (₹)	80.4	27.2	15.0	49.2		86.1	118.7	
P/E	24.2	71.6	129.7	39.6		22.7	16.4	
RoNW (%)	22.6	8.0	4.6	12.0		18.3	21.4	
RoCE (%)	29.9	10.1	5.2	15.5		23.6	27.7	

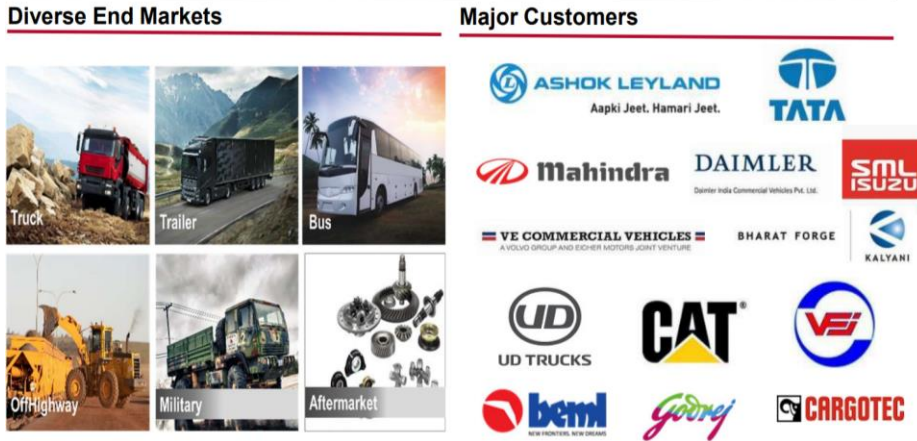
Source: Company, ICICI Direct Research

Key takeaways of recent quarter & PPT highlights

Q1FY23 Results

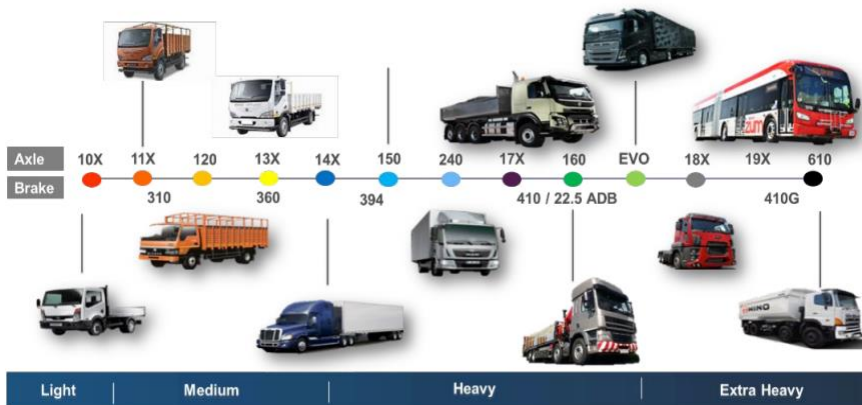
- For Q1FY23, total topline came in at ₹ 500 crore, down 10% QoQ. EBITDA for the quarter came in at ₹ 52 crore with margins at 10.3% down 90 bps QoQ. Consequently, PAT was at ₹ 30 crore down 22% QoQ
- The company's quarterly performance outperformed volume growth at its key client. Savings were realised on the raw material front (down 50 bps QoQ) but negative operating leverage (other expenses up 150 bps QoQ) took a toll on overall margins

Exhibit 1: End markets & key customers - AAL



Source: Company, ICICI Direct Research

Exhibit 2: Axle & brake offerings - AAL



Source: Company, ICICI Direct Research

Exhibit 3: Company's Mission 25 Strategy

AAL Vs MHCVC Market Growth



Mission 25 Focus	Status
Grow Revenue	On Track
Enhance Profitability	On Track
New Business Wins	On Track
Operations Excellence	On Track
Customer Value	On Track

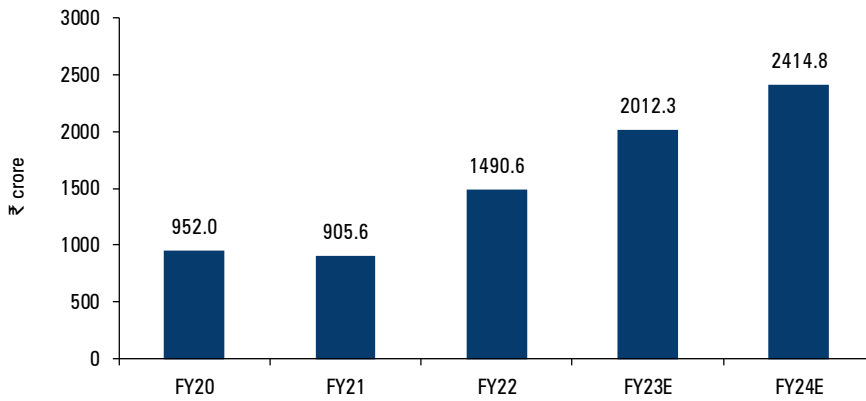
Source: Company, ICICI Direct Research

Key conference call highlights

- Management expects Q2FY23 to be marginally better than Q1FY23 with H2FY23 to be substantially better than H1FY23
- AAL has entered into long term agreements (LTA) with Ashok Leyland for axles & brakes and Tata Motors for brakes
- It expects exports to double by FY27-28E
- A 200-250 bps impact in margins due to commodity base effect wherein inflation in absolute sense is compensated by clients
- It is currently engaging with OEMs in the construction equipment space and sees this as a healthy diversification strategy
- With Cummins Inc. on board it expects better roadway into Tata Motors (new programmes)
- AAL does not intend to spend on capacity increase and would rather incur marginal capex on process improvement, technology upgradation, etc.
- The management expects domestic M&HCV segment to witness volume growth of ~25% in FY23E

Financial story in charts

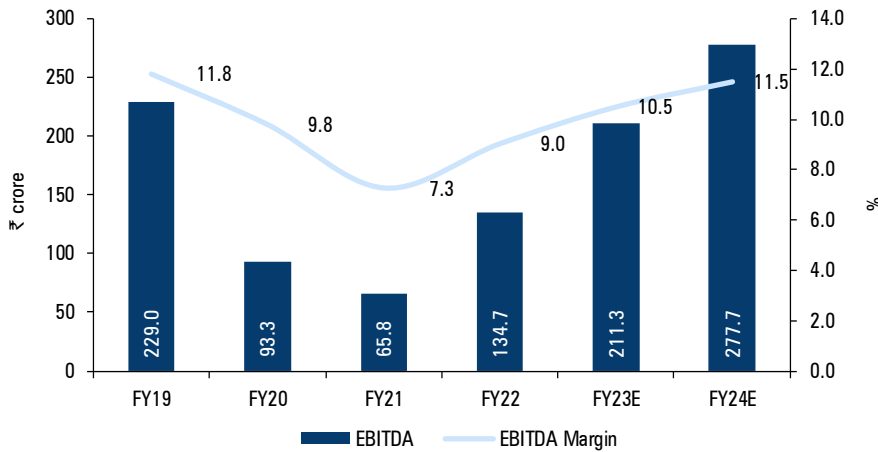
Exhibit 4: Topline trend



Revenues are seen growing at 27.3% CAGR in FY22-24E to ₹ 2,414.8 crore in FY24E

Source: Company, ICICI Direct Research

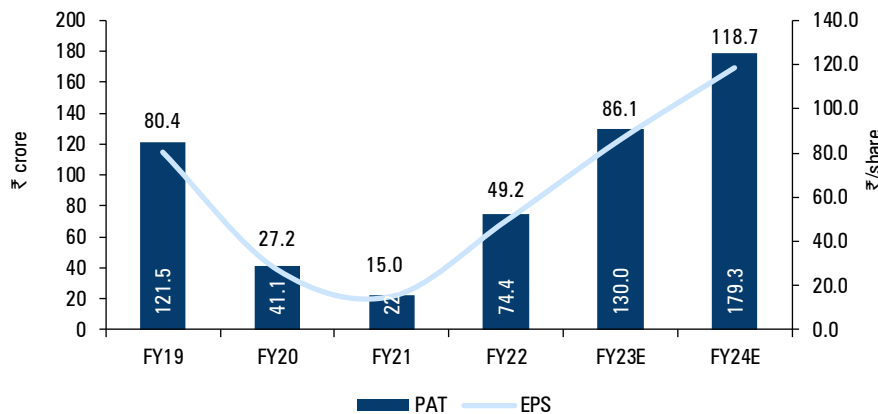
Exhibit 5: EBITDA & EBITDA margins trend



With commodity prices expected to stabilise in the near term and operating leverage at play amid cyclical upswing, EBITDA margins are seen in the range of ~11-12%, going forward, in FY23E-24E

Source: Company, ICICI Direct Research

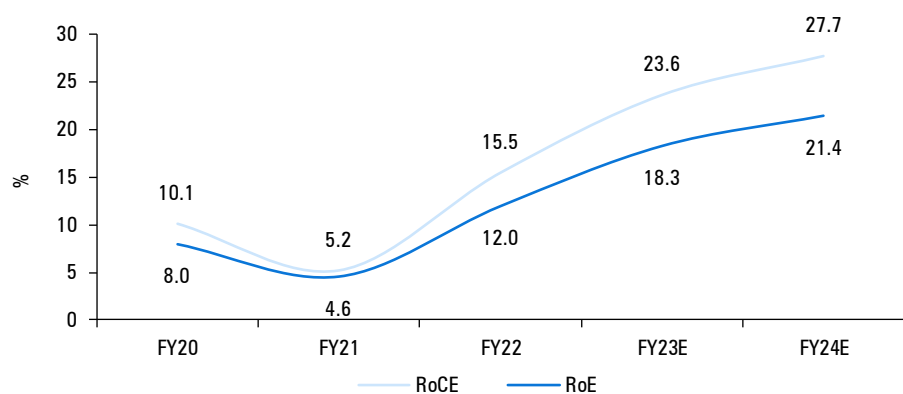
Exhibit 6: PAT & EPS trend



PAT is seen growing at a CAGR of 55.3% over FY22-24E to ₹ 179.3 crore, albeit on a low base, tracking cyclical recovery under way at its user segment

Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



Capital efficiency set to improve with RoCE seen at ~24-28% range in FY23-24E

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	952	(50.9)	27.2	(66.1)	71.6	31.0	8.0	10.1
FY21	906	(4.9)	15.0	(44.8)	129.7	43.7	4.6	5.2
FY22	1,491	64.6	49.2	227.4	39.6	21.2	12.0	15.5
FY23E	2,012	35.0	86.1	74.8	22.7	13.5	18.3	23.6
FY24E	2,415	20.0	118.7	37.9	16.4	10.0	21.4	27.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	905.6	1490.6	2012.3	2414.8
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	905.6	1,490.6	2,012.3	2,414.8
Growth (%)	-4.9	64.6	35.0	20.0
Raw Material Expenses	629.4	1,062.2	1,428.8	1,714.5
Employee Expenses	88.8	114.3	130.8	144.9
Other Operating Expense	121.6	179.5	241.5	277.7
Total Operating Expenditure	839.8	1,355.9	1,801.0	2,137.1
EBITDA	65.8	134.7	211.3	277.7
Growth (%)	-29.4	104.6	56.9	31.4
Depreciation	36.0	36.4	40.3	42.7
Interest	3.0	2.5	2.2	2.0
Other Income	7.1	4.3	5.0	6.7
PBT	33.9	100.1	173.8	239.6
Exceptional Item	3.8	0.0	0.0	0.0
Total Tax	7.4	25.7	43.8	60.4
PAT	22.7	74.4	130.0	179.3
Growth (%)	-44.8	227.4	74.8	37.9
EPS (₹)	15.0	49.2	86.1	118.7

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	22.7	74.4	130.0	179.3
Add: Depreciation	36.0	36.4	40.3	42.7
(Inc)/dec in Current Assets	-216.5	-105.6	-207.3	-173.0
Inc/(dec) in CL and Provisions	202.8	37.0	114.2	103.4
Others	3.0	2.5	2.2	2.0
CF from operating activities	48.0	44.6	79.3	154.4
(Inc)/dec in Investments	-6.0	-2.6	9.7	-47.0
(Inc)/dec in Fixed Assets	-36.3	-21.6	-30.0	-30.0
Others	0.5	1.6	0.0	0.0
CF from investing activities	-41.7	-22.6	-20.3	-77.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-4.2	-4.2	-2.0	-1.0
Dividend paid & dividend tax	-4.2	-25.1	-41.5	-56.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	0.6	15.3	0.0	0.0
CF from financing activities	-7.7	-14.0	-43.5	-57.4
Net Cash flow	-1.5	8.0	15.5	20.0
Opening Cash	74.1	72.6	80.6	96.1
Closing Cash	72.6	80.6	96.1	116.1

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	15.1	15.1	15.1	15.1
Reserve and Surplus	538.9	605.9	696.7	821.6
Total Shareholders funds	554.0	621.0	711.8	836.7
Total Debt	18.8	14.6	12.6	11.6
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	8.9	6.8	6.8	6.8
Total Liabilities	581.7	642.4	731.1	855.0
Assets				
Gross Block	408.9	459.6	487.9	517.9
Less: Acc Depreciation	186.2	222.6	262.9	305.6
Net Block	222.7	237.0	225.0	212.2
Capital WIP	32.4	3.3	5.0	5.0
Total Fixed Assets	255.1	240.2	230.0	217.2
Investments	52.5	55.1	45.4	92.4
Inventory	200.6	199.2	275.7	330.8
Debtors	282.0	389.4	496.2	595.4
Loans and Advances	13.9	7.0	9.4	11.3
Other Current Assets	55.5	62.0	83.7	100.4
Cash	72.6	80.6	96.1	116.1
Total Current Assets	624.6	738.2	961.1	1,154.1
Current Liabilities	290.5	345.2	441.1	529.3
Provisions	21.2	24.5	31.3	37.6
Current Liabilities & Prov	365.7	402.7	516.9	620.2
Net Current Assets	258.9	335.6	444.2	533.9
Others Assets	15.4	11.7	11.7	11.7
Application of Funds	581.7	642.4	731.2	855.0

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	15.0	49.2	86.1	118.7
Cash EPS	38.9	73.4	112.7	147.0
BV	366.9	411.3	471.4	554.1
DPS	4.5	15.0	26.0	36.0
Cash Per Share	48.1	53.4	63.7	76.9
Operating Ratios (%)				
EBITDA Margin	7.3	9.0	10.5	11.5
PAT Margin	2.5	5.0	6.5	7.4
Inventory days	80.9	48.8	50.0	50.0
Debtor days	113.7	95.4	90.0	90.0
Creditor days	117.1	84.5	80.0	80.0
Return Ratios (%)				
RoE	4.6	12.0	18.3	21.4
RoCE	5.2	15.5	23.6	27.7
RoIC	6.5	18.4	27.7	34.7
Valuation Ratios (x)				
P/E	129.7	39.6	22.7	16.4
EV / EBITDA	43.7	21.2	13.5	10.0
EV / Net Sales	3.2	1.9	1.4	1.2
Market Cap / Sales	3.3	2.0	1.5	1.2
Price to Book Value	5.3	4.7	4.1	3.5
Solvency Ratios				
Debt/EBITDA	0.3	0.1	0.1	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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