

# Automotive Axles (AUTAXL)

CMP: ₹ 1630

Target: ₹ 2,140 (31%)

Target Period: 12 months

BUY

May 20, 2022

## Debt free b/s; CV upswing to act as trigger for growth

**About the stock:** Automotive Axles (AAL), established in 1981, 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
- It counts all major OEMs as its clients in CV domain with prominent names being Ashok Leyland, VECV Commercial Vehicles, M&M among others

**Q4FY22 Results:** The company reported a healthy performance in Q4FY22.

- Total operating income for Q4FY22 came in at ₹ 552 crore, up 48% QoQ
- EBITDA came in at ₹ 62 crore with margins at 11.2%, up 190 bps QoQ
- PAT for the quarter was at ₹ 38.8 crore, up 96.1% QoQ

**What should investors do?** AAL's share price has increased at ~17% CAGR from ~₹ 732 in May 2017, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** given cyclical recovery in CV space, AAL a key beneficiary

**Target Price and Valuation:** Upgrading our estimates, we now value the company at revised target price of ₹ 2,140 i.e. 20x P/E on FY24E EPS (earlier TP ₹ 1730).

### Key triggers for future price performance:

- Technology support from ex-parent Meritor with capabilities in electric vehicle domain (E-Axel 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
- With cyclical recovery in the domestic CV space, we expect sales to grow at a CAGR of ~24.9% in FY22-24E to ~₹ 2,325 crore in FY24E
- Healthy b/s (net cash positive) and consistent FCF cash generation bodes well and acts as a good margin of safety to our investment thesis

**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 ₹ 1,045



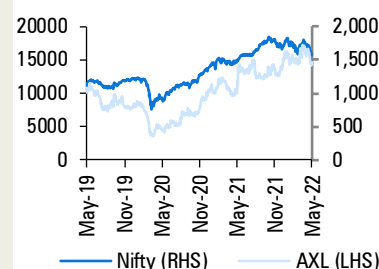
### Particulars

Particulars	₹ crore
Market capitalisation	2,461.3
Total Debt (FY22)	14.6
Cash & Investment (FY22)	97.3
EV (₹ crore)	2,378.6
52 week H/L (₹)	1,768 / 1,169
Equity capital (₹ crore)	15.1
Face value (₹)	1.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	71.0	71.0	71.0	71.0
FII	0.7	0.8	1.4	1.1
DII	14.3	13.6	13.5	14.5
Other	14.0	14.5	14.0	13.4

### Price Chart



### Recent event & key risks

- Posted healthy Q4FY22 numbers.
- Key Risk:** (i) Slower than anticipated volume growth in the domestic CV space (ii) pressure on margins amid elevated key commodity prices

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	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%	1,937.8	2,325.4	24.9%
EBITDA	229.0	93.3	65.8	134.7	3.4%	193.8	255.8	37.8%
EBITDA Margins (%)	11.8	9.8	7.3	9.0		10.0	11.0	
Net Profit	121.5	41.1	22.7	74.4	8.7%	116.5	161.7	47.5%
EPS (₹)	80.4	27.2	15.0	49.2		77.1	107.1	
P/E	20.3	59.8	108.4	33.1		21.1	15.2	
RoNW (%)	22.6	8.0	4.6	12.0		16.6	19.9	
RoCE (%)	29.9	10.1	5.2	15.5		21.5	25.8	

Source: Company, ICICI Direct Research

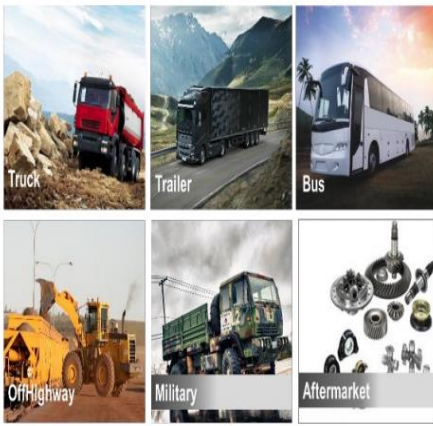
## Key takeaways of recent quarter & PPT highlights

### Q4FY22 Results: Ended year of positive note...

- For Q4FY22, total topline came at ₹ 552 crore up 48% QoQ. For FY22 revenue was at ₹ 1490.6 up 64.6% YoY. EBITDA for the quarter came in at ₹ 62 crore with margins at 11.2% up 190 bps QoQ. Consequently, PAT was at ₹ 38.8 crore (nearly 2x on QoQ basis)
- Sequential margin recovery was primarily lead by operating leverage gains (other expense down 220 bps QoQ, employee expense down 140 bps QoQ) amid gross margin decline of ~160 bps QoQ

### Exhibit 1: End markets & key customers - AAL

#### Diverse End Markets

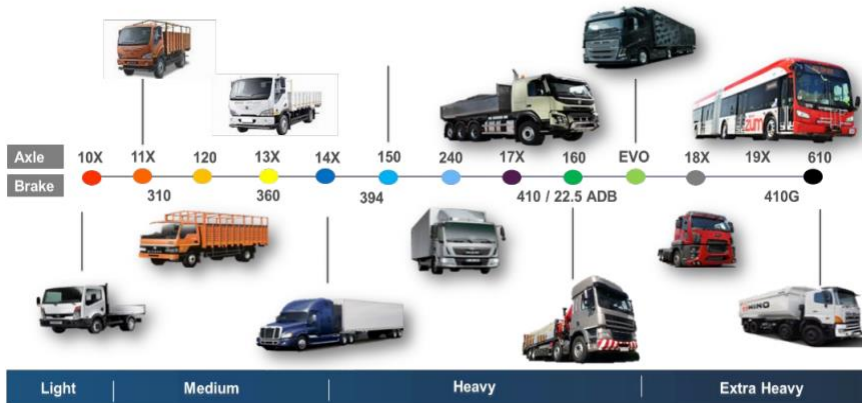


#### Major Customers



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 MHCV 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

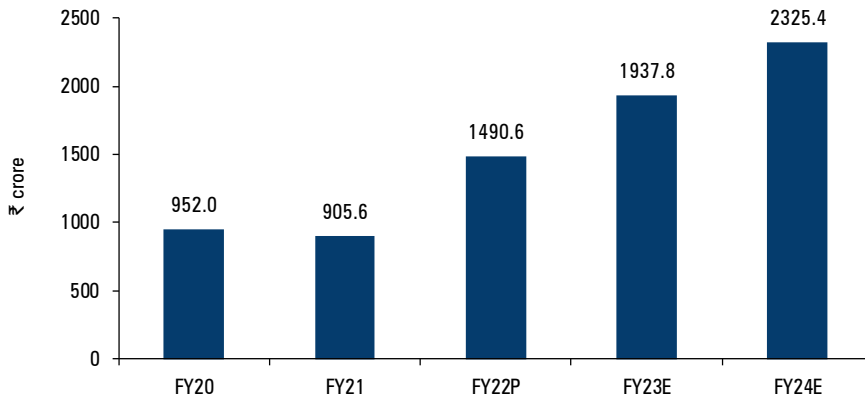
#### Key conference call highlights

- Capacity utilisation in Q4FY22 was ~75% with enough capacity available to cater to cyclical upswing in CV industry for three to four years
- Market share remained strong during the year and is on an improving trend
- AAL won new business for 55 tonne tractor trailer along with buses during Q4FY22
- Company is working in defence space to reduce dependence on automotive space
- Ball park volume growth at the company at ~35-50% for FY22 amid domestic CV industry growth of 28% YoY

The management expects industry leading growth over next few years on the back of cyclical upswing in CV space with its FY25 targets remaining intact. It expects domestic M&HCV segment to witness a volume growth of ~30% in FY23E

## Financial story in charts

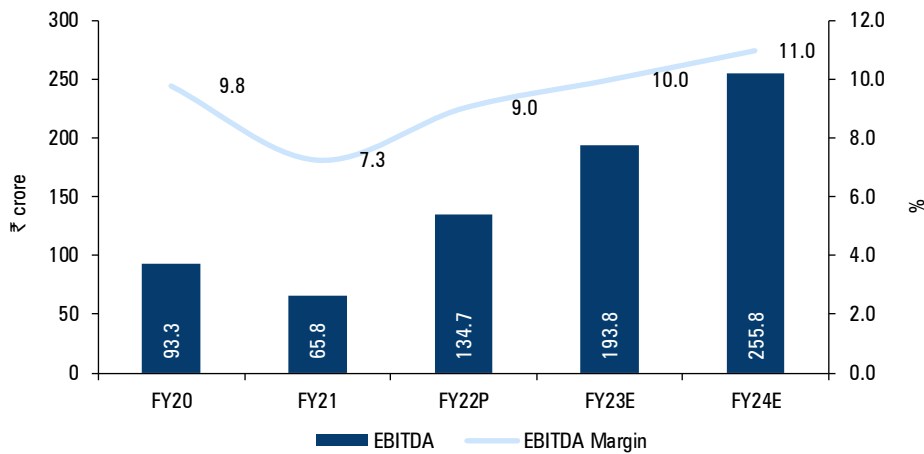
Exhibit 4: Topline trend



Revenues are seen growing at 24.9% CAGR in FY22-24E to ₹ 2,325.4 crore in FY24E

Source: Company, ICICI Direct Research

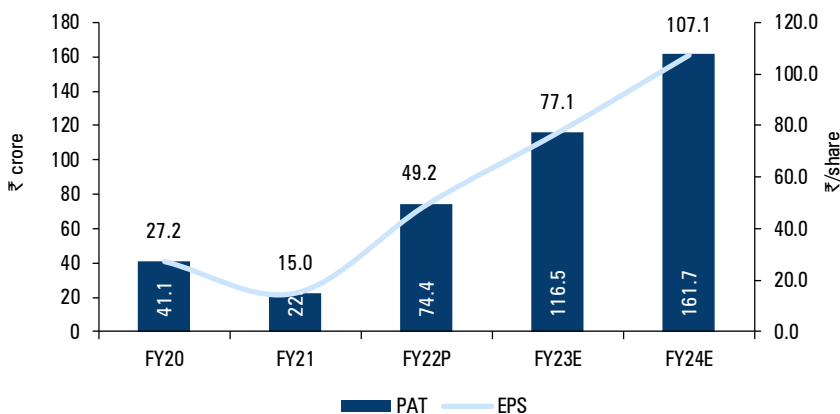
Exhibit 5: EBITDA & EBITDA margins trend



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 ~10-11% going forward over FY23E-24E

Source: Company, ICICI Direct Research

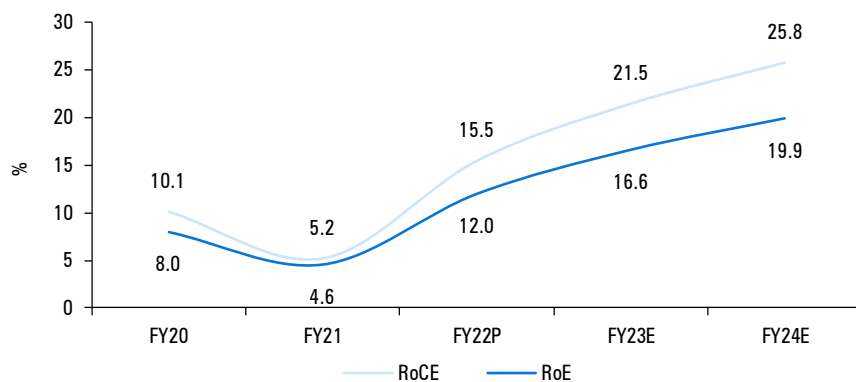
Exhibit 6: PAT & EPS trend



PAT is seen growing at a CAGR of 47.5% over FY22-24E to ₹161.7 crore, albeit on a low base, tracking cyclical recovery underway at its user segment

Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



Capital efficiency set to improve with RoCE seen at ~20-25% 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)	59.8	25.8	8.0	10.1
FY21	906	(4.9)	15.0	(44.8)	108.4	36.4	4.6	5.2
FY22P	1,491	64.6	49.2	227.4	33.1	17.7	12.0	15.5
FY23E	1,938	30.0	77.1	56.6	21.1	12.4	16.6	21.5
FY24E	2,325	20.0	107.1	38.9	15.2	9.2	19.9	25.8

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Net Sales	905.6	1490.6	1937.8	2325.4	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>905.6</b>	<b>1,490.6</b>	<b>1,937.8</b>	<b>2,325.4</b>	
Growth (%)	-4.9	64.6	30.0	20.0	
Raw Material Expenses	629.4	1,062.2	1,385.5	1,662.6	
Employee Expenses	88.8	114.3	135.6	151.1	
Other Operating Expense	121.6	179.5	222.8	255.8	
Total Operating Expenditure	839.8	1,355.9	1,744.0	2,069.6	
<b>EBITDA</b>	<b>65.8</b>	<b>134.7</b>	<b>193.8</b>	<b>255.8</b>	
Growth (%)	-29.4	104.6	43.9	32.0	
Depreciation	36.0	36.4	40.3	42.7	
Interest	3.0	2.5	2.2	2.0	
Other Income	7.1	4.3	4.4	5.2	
<b>PBT</b>	<b>33.9</b>	<b>100.1</b>	<b>155.7</b>	<b>216.2</b>	
Exceptional Item	3.8	0.0	0.0	0.0	
Total Tax	7.4	25.7	39.2	54.5	
<b>PAT</b>	<b>22.7</b>	<b>74.4</b>	<b>116.5</b>	<b>161.7</b>	
Growth (%)	-44.8	227.4	56.6	38.9	
<b>EPS (₹)</b>	<b>15.0</b>	<b>49.2</b>	<b>77.1</b>	<b>107.1</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
Profit after Tax	22.7	74.4	116.5	161.7	
Add: Depreciation	36.0	36.4	40.3	42.7	
(Inc)/dec in Current Assets	-213.4	-108.8	-201.8	-171.9	
Inc/(dec) in CL and Provisions	199.7	40.1	95.0	99.5	
Others	3.0	2.5	2.2	2.0	
<b>CF from operating activities</b>	<b>48.0</b>	<b>44.6</b>	<b>52.1</b>	<b>134.1</b>	
(Inc)/dec in Investments	-6.0	-2.6	9.7	-37.0	
(Inc)/dec in Fixed Assets	-36.3	-21.6	-30.0	-30.0	
Others	0.5	1.6	0.0	0.0	
<b>CF from investing activities</b>	<b>-41.7</b>	<b>-22.6</b>	<b>-20.3</b>	<b>-67.0</b>	
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	-37.0	-51.8	
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0	
Others	0.6	15.3	0.0	0.0	
<b>CF from financing activities</b>	<b>-7.7</b>	<b>-14.0</b>	<b>-39.0</b>	<b>-52.8</b>	
<b>Net Cash flow</b>	<b>-1.5</b>	<b>8.0</b>	<b>-7.2</b>	<b>14.3</b>	
Opening Cash	74.1	72.6	80.6	73.5	
<b>Closing Cash</b>	<b>72.6</b>	<b>80.6</b>	<b>73.5</b>	<b>87.8</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	15.1	15.1	15.1	15.1	
Reserve and Surplus	538.9	605.9	687.7	799.6	
<b>Total Shareholders funds</b>	<b>554.0</b>	<b>621.0</b>	<b>702.8</b>	<b>814.7</b>	
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	
<b>Total Liabilities</b>	<b>581.7</b>	<b>642.4</b>	<b>722.2</b>	<b>833.0</b>	
<b>Assets</b>					
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	
<b>Total Fixed Assets</b>	<b>255.1</b>	<b>240.2</b>	<b>230.0</b>	<b>217.2</b>	
Investments	52.5	55.1	45.4	82.4	
Inventory	200.6	199.2	292.0	350.4	
Debtors	282.0	389.4	477.8	573.4	
Loans and Advances	10.8	7.0	9.0	10.9	
Other Current Assets	55.5	62.0	80.6	96.7	
<b>Cash</b>	<b>72.6</b>	<b>80.6</b>	<b>73.5</b>	<b>87.8</b>	
Total Current Assets	621.5	738.2	932.9	1,119.1	
Current Liabilities	290.5	345.2	424.7	509.7	
Provisions	21.2	24.5	30.2	36.2	
Current Liabilities & Prov	362.6	402.7	497.7	597.3	
<b>Net Current Assets</b>	<b>258.9</b>	<b>335.6</b>	<b>435.2</b>	<b>521.9</b>	
Others Assets	15.4	11.7	11.7	11.7	
<b>Application of Funds</b>	<b>581.7</b>	<b>642.4</b>	<b>722.2</b>	<b>833.0</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY21	FY22P	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	15.0	49.2	77.1	107.1	
Cash EPS	38.9	73.4	103.8	135.4	
BV	366.9	411.3	465.4	539.5	
DPS	4.5	15.0	23.0	33.0	
Cash Per Share	48.1	53.4	48.7	58.1	
<b>Operating Ratios (%)</b>					
EBITDA Margin	7.3	9.0	10.0	11.0	
PAT Margin	2.5	5.0	6.0	7.0	
Inventory days	80.9	48.8	55.0	55.0	
Debtor days	113.7	95.4	90.0	90.0	
Creditor days	117.1	84.5	80.0	80.0	
<b>Return Ratios (%)</b>					
RoE	4.6	12.0	16.6	19.9	
RoCE	5.2	15.5	21.5	25.8	
RoIC	6.5	18.4	24.3	30.7	
<b>Valuation Ratios (x)</b>					
P/E	108.4	33.1	21.1	15.2	
EV / EBITDA	36.4	17.7	12.4	9.2	
EV / Net Sales	2.6	1.6	1.2	1.0	
Market Cap / Sales	2.7	1.7	1.3	1.1	
Price to Book Value	4.4	4.0	3.5	3.0	
<b>Solvency Ratios</b>					
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	1.9	1.9	
<b>Quick Ratio</b>	<b>1.1</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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