

Automotive Axles (AUTAXL)

CMP: ₹ 1485

Target: ₹ 1730 (16%)

Target Period: 12 months

BUY

February 23, 2022

Well placed to play on cyclical recovery in CV space...

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

Q3FY22 Results: The company reported a healthy performance in Q3FY22.

- Total operating income for Q3FY22 came in at ₹ 374.4 crore, up 21% QoQ
- EBITDA came in at ₹ 34.9 crore with margins at 9.3%, up 210 bps QoQ
- PAT for the quarter was at ₹ 19.8 crore, up 95.6% QoQ

Key Company Update: Automotive Axles is co-promoted by Meritor Inc. (global leader in axles especially for heavy trucks) and the Kalyani group (promoters of Bharat Forge) with each entity owning 35.5% stake in the company. At the parent level, Cummins Inc. has acquired Meritor Inc. valuing Meritor Inc. at US\$3.7 billion. Cummins Inc. is now expected to be the new co-promoter in AAL.

What should investors do? AAL's share price has increased at ~18% CAGR from ₹ 633 in February 2017, thereby outperforming the Nifty Auto index in that time.

- We retain **BUY** rating given robust growth prospects in the CV space

Target Price and Valuation: We introduce FY24E. We now value the company at a revised target price of ₹ 1730 i.e. 20x P/E on FY24E EPS (earlier TP ₹ 1260).

Key triggers for future price performance:

- Sound technology support from ex-parent Meritor Inc. with capabilities in the electric vehicles domain (e-axle for heavy duty trucks)
- Cyclical recovery in demand in CV space. We expect sales to grow at a CAGR of ~27.7% in FY21E-24E to ₹ 1,888 crore in FY24E
- Healthy b/s (net cash positive) and consistent cash generation bode well and are expected to act as a good margin of safety for our investment thesis

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

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,125



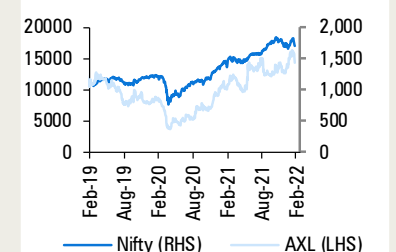
Particulars

Particulars	₹ crore
Market capitalisation	2,242.4
Total Debt (FY21)	18.8
Cash & Investment (FY21)	84.7
EV (₹ crore)	2,176.5
52 week H/L (₹)	1650 / 945
Equity capital (₹ crore)	15.1
Face value (₹)	1.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	71.0	71.0	71.0	71.0
FII	0.7	0.7	0.8	1.4
DII	12.4	14.3	13.6	13.5
Other	15.8	14.0	14.5	14.0

Price Chart



Recent event & key risks

- Cummins Inc. acquires co-promoter Meritor Inc. for US\$3.7 billion (enterprise value)
- Key Risk:** (i) Slower than anticipated growth in CV space, (ii) elevated RM costs impacting margins in the near term

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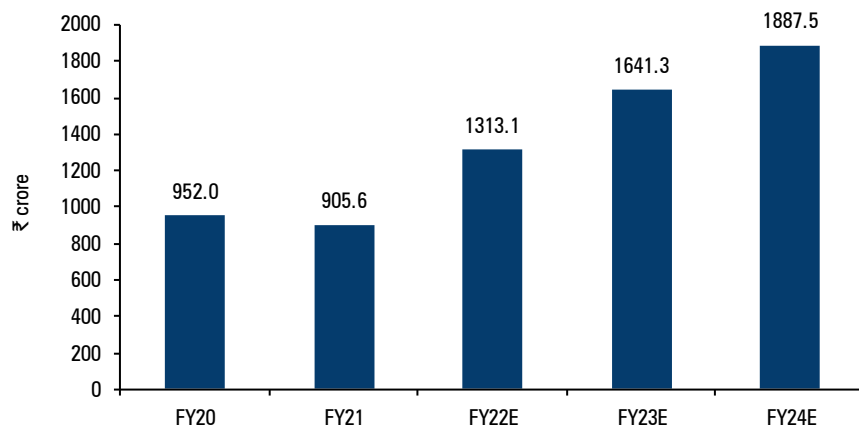
Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,939.0	952.0	905.6	-3.6%	1,313.1	1,641.3	1,887.5	27.7%
EBITDA	229.0	93.3	65.8	-7.2%	111.6	172.3	207.6	46.7%
EBITDA Margins (%)	11.8	9.8	7.3		8.5	10.5	11.0	
Net Profit	121.5	41.1	22.7	-8.0%	59.2	104.2	130.7	79.2%
EPS (₹)	80.4	27.2	15.0		39.2	69.0	86.6	
P/E	18.5	54.5	98.7		37.9	21.5	17.1	
RoNW (%)	22.6	8.0	4.6		9.9	15.6	17.2	
RoCE (%)	29.9	10.1	5.2		12.6	20.0	22.1	

Source: Company, ICICI Direct Research

Financial story in charts

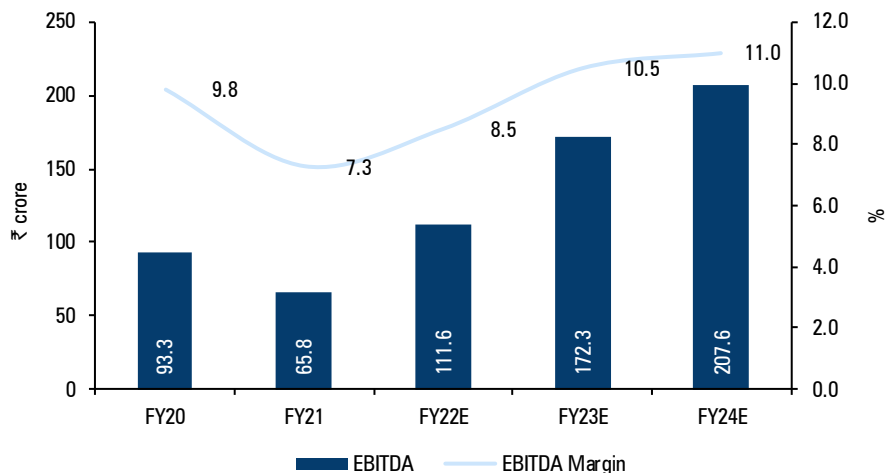
Exhibit 1: Topline trend



Revenues are seen growing at 27.7% CAGR in FY21-24E to ₹ 1,888 crore in FY24E

Source: Company, ICICI Direct Research

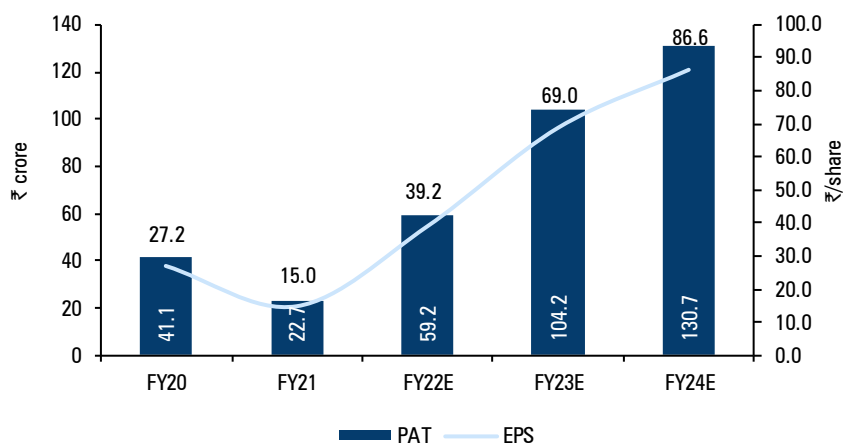
Exhibit 2: EBITDA & EBITDA margins trend



With commodity prices expected to stabilise in the near term and operating leverage at play, EBITDA margins are seen in the range of ~10-11%, going forward over FY23E-24E

Source: Company, ICICI Direct Research

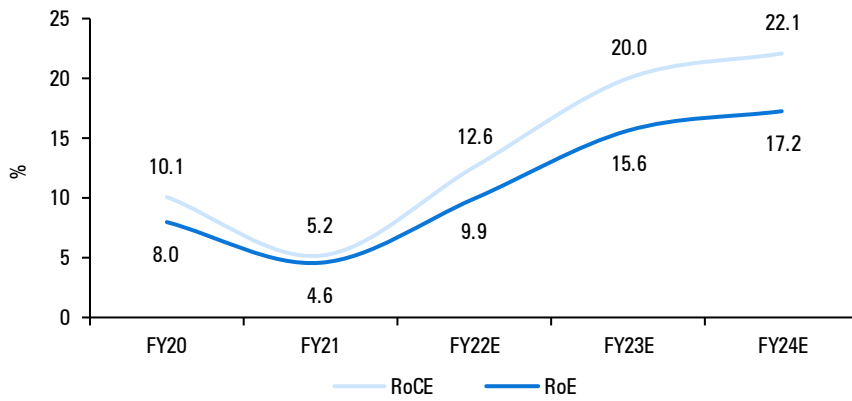
Exhibit 3: PAT & EPS trend



PAT is seen growing at a CAGR of 79.2% over FY21-24E to ₹ 131 crore, albeit on a low base, tracking cyclical recovery under way at its user segment

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Capital efficiency set to improve with RoCE seen in 20%+ range starting FY23E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ crore)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	952	(50.9)	27.2	(66.1)	54.5	23.5	8.0	10.1
FY21	906	(4.9)	15.0	(44.8)	98.7	33.1	4.6	5.2
FY22E	1,313	45.0	39.2	160.7	37.9	19.3	9.9	12.6
FY23E	1,641	25.0	69.0	76.0	21.5	12.5	15.6	20.0
FY24E	1,888	15.0	86.6	25.4	17.1	10.2	17.2	22.1

Source: Company, ICICI Direct Research

Exhibit 6: End markets & key customers - AAL

Diverse End Markets

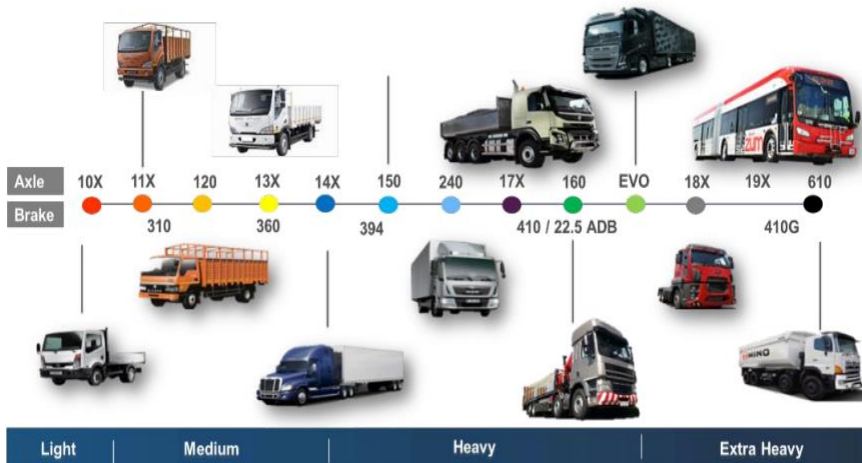


Major Customers



Source: Company, ICICI Direct Research

Exhibit 7: Axle & brake offerings - AAL



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	905.6	1313.1	1641.3	1887.5
Other Operating Income	0.0	0.0	0.0	0.0
Total Operating Income	905.6	1,313.1	1,641.3	1,887.5
Growth (%)	-4.9	45.0	25.0	15.0
Raw Material Expenses	629.4	932.3	1,157.1	1,330.7
Employee Expenses	88.8	111.6	131.3	141.6
Other Operating Expense	121.6	157.6	180.5	207.6
Total Operating Expenditure	839.8	1,201.5	1,469.0	1,679.9
EBITDA	65.8	111.6	172.3	207.6
Growth (%)	-29.4	69.6	54.4	20.5
Depreciation	36.0	34.4	35.7	36.8
Interest	3.0	2.7	2.4	2.2
Other Income	7.1	4.6	5.1	6.2
PBT	33.9	79.2	139.3	174.8
Exceptional Item	3.8	0.0	0.0	0.0
Total Tax	7.4	19.9	35.1	44.0
PAT	22.7	59.2	104.2	130.7
Growth (%)	-44.8	160.7	76.0	25.4
EPS (₹)	15.0	39.2	69.0	86.6

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	22.7	59.2	104.2	130.7
Add: Depreciation	36.0	34.4	35.7	36.8
(Inc)/dec in Current Assets	-213.4	34.2	-128.7	-96.5
Inc/(dec) in CL and Provisions	199.7	-57.2	76.3	57.2
Others	3.0	2.7	2.4	2.2
CF from operating activities	48.0	73.3	90.0	130.5
(Inc)/dec in Investments	-6.0	-2.9	0.0	-35.0
(Inc)/dec in Fixed Assets	-36.3	-35.0	-50.0	-50.0
Others	0.5	0.0	0.0	0.0
CF from investing activities	-41.7	-37.9	-50.0	-85.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-4.2	-2.0	-2.0	-1.0
Dividend paid & dividend tax	-4.2	-20.4	-34.1	-41.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	0.6	0.0	0.0	0.0
CF from financing activities	-7.7	-22.4	-36.1	-42.4
Net Cash flow	-1.5	12.9	3.9	3.1
Opening Cash	74.1	72.6	85.5	89.5
Closing Cash	72.6	85.5	89.5	92.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	15.1	15.1	15.1	15.1
Reserve and Surplus	538.9	580.4	652.9	744.4
Total Shareholders funds	554.0	595.5	668.0	759.5
Total Debt	18.8	16.8	14.8	13.8
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	8.9	8.9	8.9	8.9
Total Liabilities	581.7	621.2	691.7	782.2
Assets				
Gross Block	408.9	451.3	501.3	551.3
Less: Acc Depreciation	186.2	220.6	256.3	293.2
Net Block	222.7	230.7	245.0	258.1
Capital WIP	32.4	25.0	25.0	25.0
Total Fixed Assets	255.1	255.7	270.0	283.1
Investments	52.5	55.4	55.4	90.4
Inventory	200.6	215.8	269.8	310.3
Debtors	282.0	215.8	269.8	310.3
Loans and Advances	10.8	15.6	19.5	22.4
Other Current Assets	55.5	67.3	84.2	96.8
Cash	72.6	85.5	89.5	92.5
Total Current Assets	621.5	600.2	732.7	832.3
Current Liabilities	290.5	215.8	269.8	310.3
Provisions	21.2	15.8	19.7	22.7
Current Liabilities & Prov	362.6	305.3	381.6	438.9
Net Current Assets	258.9	294.9	351.1	393.4
Others Assets	15.4	15.4	15.4	15.4
Application of Funds	581.7	621.2	691.7	782.2

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	15.0	39.2	69.0	86.6
Cash EPS	38.9	62.0	92.7	111.0
BV	366.9	394.4	442.4	503.0
DPS	4.5	11.8	21.0	26.0
Cash Per Share	48.1	56.7	59.2	61.3
Operating Ratios (%)				
EBITDA Margin	7.3	8.5	10.5	11.0
PAT Margin	2.5	4.5	6.3	6.9
Inventory days	80.9	60.0	60.0	60.0
Debtor days	113.7	60.0	60.0	60.0
Creditor days	117.1	60.0	60.0	60.0
Return Ratios (%)				
RoE	4.6	9.9	15.6	17.2
RoCE	5.2	12.6	20.0	22.1
RoIC	6.5	15.9	24.7	28.2
Valuation Ratios (x)				
P/E	98.7	37.9	21.5	17.1
EV / EBITDA	33.1	19.3	12.5	10.2
EV / Net Sales	2.4	1.6	1.3	1.1
Market Cap / Sales	2.5	1.7	1.4	1.2
Price to Book Value	4.0	3.8	3.4	3.0
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.1	0.1
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	2.2	2.2	2.2
Quick Ratio	1.1	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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