

# Automotive Axles (AUTAXL)

CMP: ₹ 2,580

Target: ₹ 3,000 (16%)

Target Period: 12 months

February 7, 2023

BUY

## Robust performance, further gains lie ahead...

**About 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

**Q3FY23 Results:** The company reported a healthy performance in Q3FY23.

- Total operating income for Q3FY23 came in at ₹ 656 crore, up 38% QoQ
- EBITDA came in at ₹ 78 crore with margins at 11.9%, up 123 bps QoQ
- PAT for the quarter was at ₹ 50 crore, up 68% QoQ
- Management expects domestic M&HCV volumes to grow ~35% in FY23E**

**What should investors do?** AAL's share price has increased at ~8.4% CAGR from ~₹ 1730 in February 2018, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** given cyclical recovery in CV space (M&HCV domain) with AAL a key beneficiary. We are also positive on AAL given the tangible efforts it is taking on increasing its content/vehicle, wallet share with existing clients and targeting new segments such as construction equipment, defence, etc.

**Target Price and Valuation:** Introducing FY25E, we now value the company at revised target price of ₹ 3,000 i.e. 20x P/E on FY25E EPS of ₹ 150 (earlier TP ₹ 2,375).

### Key triggers for future price performance:

- Robust capex allocation in Union Budget 2023-24 at ~₹ 10 lakh crore (up 33% YoY) & uptick in core industrial/manufacturing activity to aid healthy M&HCV volume growth domestically over FY22-25E with AAL a key beneficiary. We pencil in sales CAGR of ~23.5% over FY22-25E
- Support from ex-parent Meritor with expertise in the field of electric vehicles (e-axles for M&HCV). This, coupled with new co-promoter i.e. Cummins' intend 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 12% margin, 25%+ return ratios by FY25E

**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 ₹ 1,590



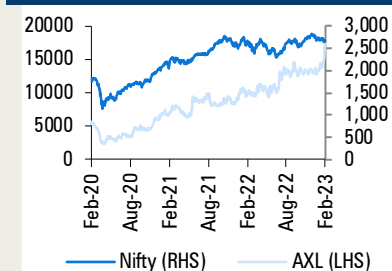
### Particulars

Particulars	₹ crore
Market capitalisation	3,895.8
Total Debt (FY22)	14.6
Cash & Investment (FY22)	97.3
EV (₹ crore)	3,813.1
52 week H/L (₹)	2,686 / 1,380
Equity capital (₹ crore)	15.1
Face value (₹)	1.0

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	71.0	71.0	71.0	71.0
FII	1.1	1.4	0.7	0.7
DII	14.5	13.3	13.2	13.9
Other	13.4	14.3	15.0	14.4

### Price Chart



### Recent event & key risks

- Posted healthy Q3FY23 numbers.
- Key Risk:** (i) Slower than anticipated volume growth in M&CV space over FY24-25E (ii) Uptick in input cost affecting margin recovery

### Research Analyst

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	1,939.0	952.0	905.6	1,490.6	4.9%	2,280.6	2,554.3	2,809.8	23.5%
EBITDA	229.0	93.3	65.8	134.7	3.4%	257.7	293.7	337.2	35.8%
EBITDA Margins (%)	11.8	9.8	7.3	9.0		11.3	11.5	12.0	
Net Profit	121.5	41.1	22.7	74.4	8.7%	163.1	190.7	226.6	45.0%
EPS (₹)	80.4	27.2	15.0	49.2		108.0	126.3	150.1	
P/E	32.1	94.7	171.5	52.4		23.9	20.4	17.2	
RoNW (%)	22.6	8.0	4.6	12.0		22.2	22.0	22.2	
RoCE (%)	29.9	10.1	5.2	15.5		28.9	28.5	28.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & PPT highlights

### Q3FY23 Results

- For Q3FY23, total topline came in at ₹ 656 crore, up 38% QoQ. EBITDA for the quarter came in at ₹ 78 crore with margins at 11.9%, up 123 bps QoQ. Consequently, PAT was at ₹ 50 crore, up 68% QoQ
- The company's quarterly performance vastly outperformed volume growth at its key client. On the margins front, operating leverage gains led to sequential improvement amid nearly flat gross margin profile

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

#### Diverse End Markets

#### Major Customers

Source: Company, ICICI Direct Research

### Exhibit 2: Key business action

#### Business Growth Strategy

- Successful implementation of LTA agreement
- Focus on export business opportunities
- Improve operational performance & Increase share of business with OE
- Product Development – Launch of New products
- Drive e-mobility business
- Digitalization – Implementation of Industry 4.0
- Geared up with capacity to cater to rising market demand



#### Cost Measures

- Cost reduction measures at organization and plant level
- Continuous Focus on M 25 initiatives, and Significant savings expected through M2025 timeframe
- Further cost measures in place for Conversion, Material and Manpower cost control



#### Safety Practices

- ESG strategy & implementation in progress
- Specific steps on to improve ESG standards and the reporting requirements.
- Focus on safety of employees continues though COVID pressure is low



Source: Company, ICICI Direct Research

### Exhibit 3: Company's Mission 25 Strategy

#### AAL Vs MHCV Market Growth



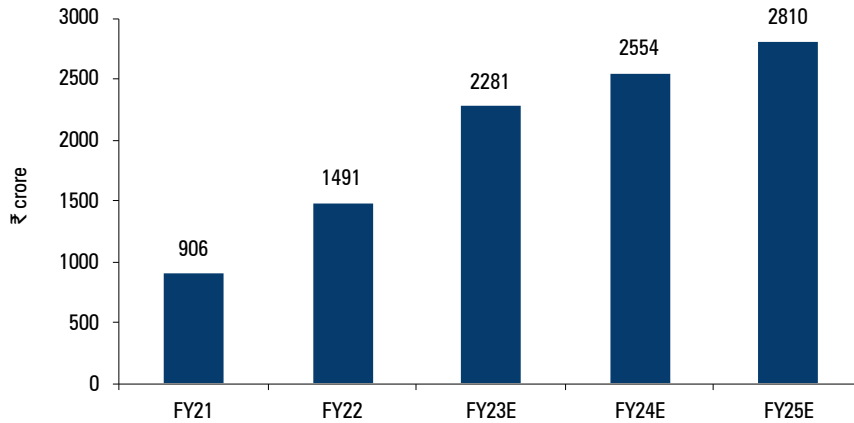
Mission 25 Focus	Status
Grow Revenue	On Track
Enhance Profitability	On Track
New Business Wins	On Track
Operations Excellence	On Track
Customer Value	On Track

- Focus
- FY23:-Q4 demand estimated same level of Q3
- Commodity price softens however focus continues
- Focus on improving conversion and material cost performances.

Source: Company, ICICI Direct Research

## Financial story in charts

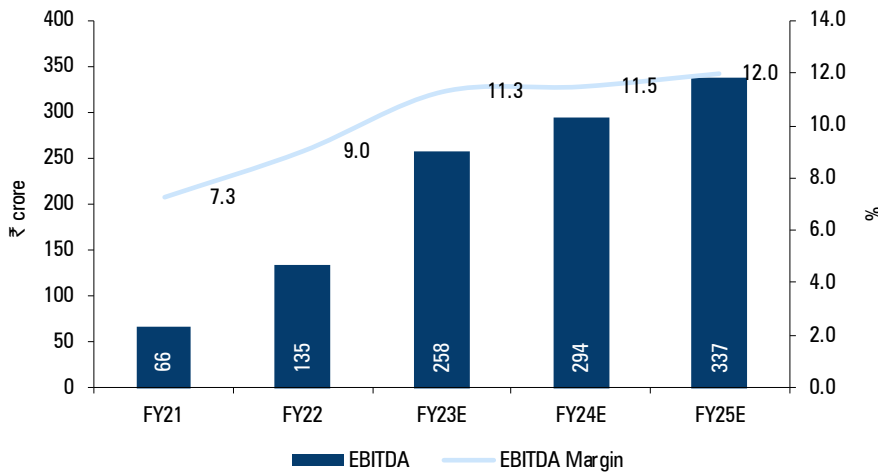
Exhibit 4: Topline trend



Revenues are seen growing at 23.5% CAGR in FY22-25E to ₹ 2,810 crore in FY25E

Source: Company, ICICI Direct Research

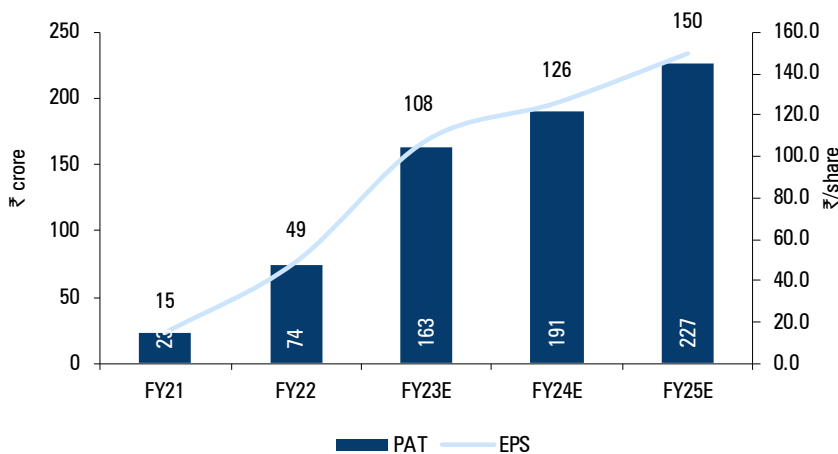
Exhibit 5: EBITDA & EBITDA margins trend



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, over FY23E-25E

Source: Company, ICICI Direct Research

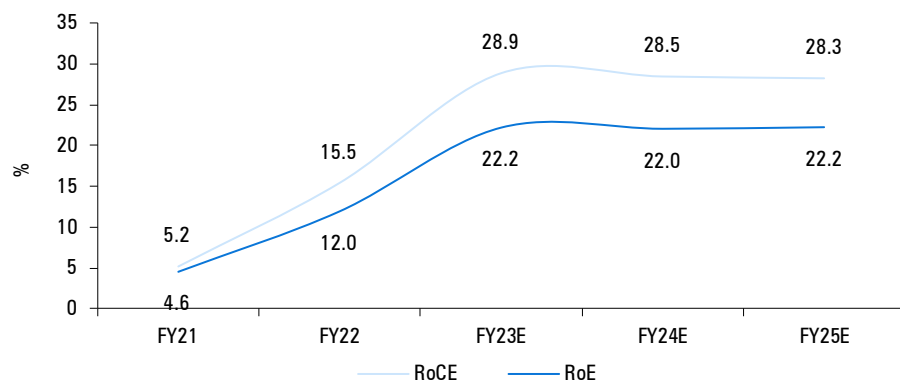
Exhibit 6: PAT & EPS trend



PAT is seen growing at a CAGR of 45% over FY22-25E to ₹ 227 crore in FY25E, 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 ~28% levels in FY23-25E

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)	94.7	41.2	8.0	10.1
FY21	906	(4.9)	15.0	(44.8)	171.5	58.2	4.6	5.2
FY22	1,491	64.6	49.2	227.4	52.4	28.3	12.0	15.5
FY23E	2,281	53.0	108.0	119.3	23.9	14.9	22.2	28.9
FY24E	2,554	12.0	126.3	16.9	20.4	12.7	22.0	28.5
FY25E	2,810	10.0	150.1	18.8	17.2	10.7	22.2	28.3

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	1490.6	2280.6	2554.3	2809.8
Other Operating Income	0.0	0.0	0.0	0.0
<b>Total Operating Income</b>	<b>1,490.6</b>	<b>2,280.6</b>	<b>2,554.3</b>	<b>2,809.8</b>
Growth (%)	64.6	53.0	12.0	10.0
Raw Material Expenses	1,062.2	1,630.7	1,826.3	1,994.9
Employee Expenses	114.3	125.4	140.5	154.5
Other Operating Expense	179.5	266.8	293.7	323.1
Total Operating Expenditure	1,355.9	2,022.9	2,260.6	2,472.6
<b>EBITDA</b>	<b>134.7</b>	<b>257.7</b>	<b>293.7</b>	<b>337.2</b>
Growth (%)	104.6	91.4	14.0	14.8
Depreciation	36.4	41.5	44.0	46.4
Interest	2.5	2.7	2.4	2.0
Other Income	4.3	5.3	7.6	14.1
<b>PBT</b>	<b>100.1</b>	<b>218.9</b>	<b>255.0</b>	<b>303.0</b>
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	25.7	55.8	64.2	76.3
<b>PAT</b>	<b>74.4</b>	<b>163.1</b>	<b>190.7</b>	<b>226.6</b>
Growth (%)	227.4	119.3	16.9	18.8
<b>EPS (₹)</b>	<b>49.2</b>	<b>108.0</b>	<b>126.3</b>	<b>150.1</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	74.4	163.1	190.7	226.6
Add: Depreciation	36.4	41.5	44.0	46.4
(Inc)/dec in Current Assets	-105.6	-322.7	-117.6	-109.8
Inc/(dec) in CL and Provisions	37.0	183.1	70.3	65.6
Others	2.5	2.7	2.4	2.0
<b>CF from operating activities</b>	<b>44.6</b>	<b>67.7</b>	<b>189.8</b>	<b>230.7</b>
(Inc)/dec in Investments	-2.6	15.7	-82.0	-122.0
(Inc)/dec in Fixed Assets	-21.6	-30.0	-30.0	-30.0
Others	1.6	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-22.6</b>	<b>-14.3</b>	<b>-112.0</b>	<b>-152.0</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-4.2	-2.0	-2.0	-2.0
Dividend paid & dividend tax	-25.1	-51.0	-62.8	-74.4
Inc/(dec) in Share Cap	0.0	0.0	0.0	0.0
Others	15.3	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-14.0</b>	<b>-53.0</b>	<b>-64.8</b>	<b>-76.4</b>
<b>Net Cash flow</b>	<b>8.0</b>	<b>0.3</b>	<b>13.0</b>	<b>2.3</b>
Opening Cash	72.6	80.6	80.9	93.9
<b>Closing Cash</b>	<b>80.6</b>	<b>80.9</b>	<b>93.9</b>	<b>96.2</b>

Source: Company, ICICI Direct Research

Exhibit 11: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	15.1	15.1	15.1	15.1
Reserve and Surplus	605.9	720.7	851.0	1,005.1
<b>Total Shareholders funds</b>	<b>621.0</b>	<b>735.8</b>	<b>866.1</b>	<b>1,020.2</b>
Total Debt	14.6	12.6	10.6	8.6
Deferred Tax Liability	0.0	0.0	0.0	0.0
Minority Interest / Others	6.8	6.8	6.8	6.8
<b>Total Liabilities</b>	<b>642.4</b>	<b>755.2</b>	<b>883.5</b>	<b>1,035.6</b>
<b>Assets</b>				
Gross Block	459.6	487.9	517.9	547.9
Less: Acc Depreciation	222.6	264.1	308.1	354.4
Net Block	237.0	223.8	209.8	193.4
Capital WIP	3.3	5.0	5.0	5.0
<b>Total Fixed Assets</b>	<b>240.2</b>	<b>228.8</b>	<b>214.8</b>	<b>198.4</b>
Investments	55.1	39.4	121.4	243.4
Inventory	199.2	312.4	349.9	384.9
Debtors	389.4	562.4	629.8	692.8
Loans and Advances	7.0	10.7	11.9	13.1
Other Current Assets	62.0	94.9	106.2	116.9
<b>Cash</b>	<b>80.6</b>	<b>80.9</b>	<b>93.9</b>	<b>96.2</b>
Total Current Assets	738.2	1,061.2	1,191.8	1,303.9
Current Liabilities	345.2	499.9	559.9	615.8
Provisions	24.5	35.5	39.8	43.7
Current Liabilities & Prov	402.7	585.8	656.1	721.7
<b>Net Current Assets</b>	<b>335.6</b>	<b>475.4</b>	<b>535.7</b>	<b>582.2</b>
Others Assets	11.7	11.7	11.7	11.7
<b>Application of Funds</b>	<b>642.4</b>	<b>755.2</b>	<b>883.5</b>	<b>1,035.6</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	49.2	108.0	126.3	150.1
Cash EPS	73.4	135.4	155.4	180.8
BV	411.3	487.3	573.6	675.7
DPS	15.0	32.0	40.0	48.0
Cash Per Share	53.4	53.6	62.2	63.7
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.0	11.3	11.5	12.0
PAT Margin	5.0	7.2	7.5	8.1
Inventory days	48.8	50.0	50.0	50.0
Debtor days	95.4	90.0	90.0	90.0
Creditor days	84.5	80.0	80.0	80.0
<b>Return Ratios (%)</b>				
RoE	12.0	22.2	22.0	22.2
RoCE	15.5	28.9	28.5	28.3
RoIC	18.4	32.6	35.8	40.0
<b>Valuation Ratios (x)</b>				
P/E	52.4	23.9	20.4	17.2
EV / EBITDA	28.3	14.9	12.7	10.7
EV / Net Sales	2.6	1.7	1.5	1.3
Market Cap / Sales	2.6	1.7	1.5	1.4
Price to Book Value	6.3	5.3	4.5	3.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.8	1.8	1.8	1.8
<b>Quick Ratio</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>

Source: Company, ICICI Direct Research

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