AXIS SECURITIES

Results Update
29th May 2024

Automotive Axles
Auto Ancillary

BUY
Target Price
2,175

Short-Term Pain, Long-Term Gain!

Est. Vs. Actual for Q4FY24: Revenue– MISS; EBITDA – MISS; PAT– INLINE

Change in Estimates post Q4FY24

FY25E/FY26E:Revenue: -0.2%/0.6%;**EBITDA:** 1.5%/1.1%; **PAT:** 3.8%/6.7%

Recommendation Rationale

- **Industry Outlook:** In FY24, the MHCV/LCV production volumes grew ~2.97%/2.68% YoY; and in Q4FY24 production volumes grew ~15%/20% QoQ. We expect growth in the Passenger segment volumes to continue to witness double-digit growth. However, the MHCV goods carrier segment volumes are likely to witness tepid growth in the near term (possible decline as well) with a gradual recovery expected only post FY25 full-year budget.
- **New Product launches:** Currently, AutoAxles' products cater only to 50-60% of the overall CV industry. With significant growth as witnessed in the Passenger CV segment the company plans to launch axles for 9 meter (Mt) buses (currently only present in 12 Mt) which is a high volume business. The company also plans to launch axles for higher 49 tonnage vehicles and tippers, which have potential export opportunities in North America and Europe.
- **EBITDA Margin:** Levers to improve margins going forward will be a) Improving market share among OEMs, b) New products launches, c) Cost control and d) value engineering. We conservatively expect EBITDA to grow 5% CAGR over FY24-26E.

Company Outlook & Guidance: With the launch of new products the company aims to improve its product portfolio, thereby catering to 70-80% of CV segment over the medium term from existing 50-60%. This shall lead to higher revenues and a gradual improvement in EBITDA margins, led by efficient utilization of resources.

Current Valuation: 18x FY26EPS (earlier 16x FY26 EPS)

Current TP: **Rs 2,175/share** (Earlier TP:Rs 1,800/share)

Recommendation: Being a proxy play to the CV industry, at CMP we find limited downside risk to AutoAxles. Hence, **we upgrade the stock to BUY** from SELL earlier with an 11% upside potential.

Financial Performance: Automotive Axles posted weaker than expected Revenue/EBITDA/PAT. Revenue was down 18% YoY but up 6%QoQ, (6% Miss) vs MHCV industry production volume which were flat YoY and grew 15% QoQ. This lower-than-industry QoQ growth was mainly due to lower product presence in the 9 Mt Bus Segment which witnessed high volume growth. EBITDA at ~Rs 64Cr was down 18% YoY but up 10% QoQ (5% Miss) on account of lower gross margins. EBITDA margins stood flat at 11.1%. PAT was reported at Rs 44 Cr, down 13% YoY but up 13% QoQ (Inline), largely on account of higher non-operating income.

Outlook: The CV industry has witnessed higher tonnage growth over the last couple of years despite the production volumes being lower than peaks of FY19. Going forward, the industry volume growth rate is likely to moderate in FY25E owing to the high base of FY24. On the back of new product launches and stable commodity prices, we forecast an EBITDA/PAT CAGR of 5% each over FY24-26E.

Valuation & Recommendation: The near term outlook for CV industry remains cautious. However, with the possibility of formation of a stable government alongside possibility of having lower fiscal deficit (taking cue from higher than expected dividends received from RBI) and continued focus on increased infra spending will benefit the sector over the medium/long term. Being a proxy play to the CV industry, at CMP we see limited downside risk for AutoAxles. Hence, **we upgrade the stock to BUY** from SELL earlier**.** We value the stock at 18x FY26EPS (earlier 16x FY26EPS) to arrive at a TP of Rs 2,175 (earlier TP Rs 1,800) per share.

Key Financials (Consolidated)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	571.5	6%	-18%	609.9	-6%
EBITDA	63.7	10%	-18%	67.1	-5%
EBITDA Margin	11.1%	45 bps	-7 bps	11.0%	15
Net Profit	44.1	13%	-13%	44.5	-1%
EPS (Rs)	29.2	13%	-13%	29.5	-1%

Source: Company, Axis Securities

(CMP as of 28th May 2024)	
CMP (Rs)	1,956
Upside /Downside (%)	11%
High/Low (Rs)	2466/1741
Market cap (Cr)	2,955
Avg. daily vol. (6m)Shrs.	22,488
No. of shares (Cr)	1.51

Shareholding (%)

	Sept-23	Dec-23	Mar-24
Promoter	71.04	71.04	71.04
FIIs	0.67	0.63	0.51
MFs / UTI	11.64	11.60	11.74
Banks / FIs	0.00	0.00	0.00
Others	16.65	16.73	16.71

Financial & Valuations

Y/E Mar	FY24	FY25E	FY26E
Net Sales	2,229	2,372	2,491
EBITDA	246	261	274
Net Profit	165	172	184
EPS (Rs.)	109.9	114.3	121.7
PER (x)	16.1	17.2	16.1
EV/ EBITDA	10.5	10.7	9.7
P/BV	3.0	2.9	2.5
ROE (%)	19.6	17.9	16.5

Change in Estimates (%)

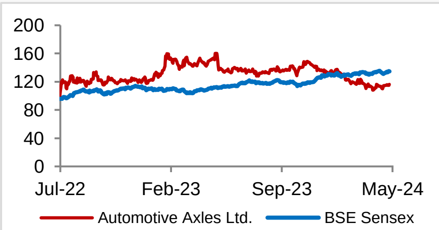
Y/E Mar	FY25E	FY26E
Sales	-0.2%	0.6%
EBITDA	1.5%	1.1%
PAT	3.8%	6.7%

ESG disclosure Score**

Environmental Disclosure	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	**NA**
Sector Average	**46.4**

Source: Bloomberg, Scale: 0.1-100
**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: AceEquity, AxisSecurities.

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Key Concall Highlights

- **Capex:** The capital expenditure is slated to be ~Rs 50-60 Cr over the next two year and will be mainly focused on i) new product development, ii) automation in manufacturing and assembly lines and iii) production optimization strategies.
- **E-Axles**: AutoAxles has the ability to manufacture certain components of E-axles for which it suppliers to its parent-Cummins Meritor. The management also stated that the company is supplying axles to key customers for BEV which have a remote mounted design.
- **Bus Axles:** Currently, the company has axles which only caters to 12 Mt buses. It will soon launch products for 9 Mt buses to cater to OEMs who have significant orders from the Government for such buses. It further aims to launch new axle sizes to enhance its market share and fill white spaces in its product portfolio.
- The management has guided for a flat to slightly negative outlook on the overall CV industry volumes in FY25E. However, the management stated that they remain positive on the long term growth prospects of the industry, with demand expected to recover in the next few quarters.

Key Risks to our Estimates and TP

- Higher than expected MHCV volume uptake by fleet operators/replacement demand.
- Macroeconomic headwinds.

Change in Estimates

	Revised			Old			% Change		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Revenues	2,229	2,372	2,491	2,273	2,378	2,477	-1.9%	-0.2%	0.6%
EBITDA	246	261	274	250	257	271	-1.5%	1.5%	1.1%
PAT	165	172	184	165	166	172	0.0%	3.8%	6.7%

Source: Company, Axis Securities

Q4FY24 Results Review

Consolidated (Rs Cr)	Q4FY23	Q3FY24	Axis Estimates	Q4FY24	% Change (YoY)	% Change (QoQ)	% Variance
Sales	**693.0**	**541.3**	**609.9**	**571.5**	**-18%**	**6%**	**-6%**
Expenditure							
Net Raw Material	502.5	383.8	433.0	407.1	-19%	6%	-6%
Personnel	33.7	34.3	37.2	33.5	-1%	-2%	-10%
Other Exp	79.1	65.3	72.6	67.3	-15%	3%	-7%
Total Expenditure	**615.3**	**483.4**	**542.8**	**507.8**	**-17%**	**5%**	**-6%**
EBIDTA	**77.7**	**57.9**	**67.1**	**63.7**	**-18%**	**10%**	**-5%**
EBITDA Margin	**11.2%**	**10.7%**	**11.0%**	**11.1%**	**-7**	**45**	**15**
Non-operating Income	1.3	4.3	3.1	5.4	317%	25%	71%
Interest	0.6	0.6	0.7	0.9	45%	51%	24%
Depreciation	10.4	9.0	9.7	9.0	-13%	1%	-7%
Exceptional Item	0.0	0.0	0.0	0.0	0%	0%	0%
PBT	**68.0**	**52.6**	**59.8**	**59.1**	**-13%**	**12%**	**-1%**
Tax	17.2	13.5	15.2	15.0	-13%	12%	-1%
PAT	**50.8**	**39.1**	**44.5**	**44.1**	**-13%**	**13%**	**-1%**
Oth. Comprehensive Income (net of taxes)	-0.3	-0.2	-0.1	-0.5	Na	Na	Na
Total Comprehensive Income	50.5	39.0	44.4	43.6	-14%	12%	-2%
EPS (Rs.)	**33.6**	**25.9**	**29.5**	**29.2**	**-13%**	**13%**	**-1%**
Gross profit margin (%)	27.49%	29.10%	29.00%	28.77%	129	-32	-23
Personnel cost as a % of sales	4.9%	6.3%	6.1%	5.9%	99	-48	-24
Other exp as a % of sales	11.4%	12.1%	11.9%	11.8%	36	-29	-13
Net RM cost as a % of sales	72.5%	70.9%	71.0%	71.2%	-129	32	23
Net profit margin %	7.33%	7.23%	7.30%	7.72%	38	48	41

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY23	FY24	FY25E	FY26E
Net sales	**2,324**	**2,229**	**2,372**	**2,491**
Other operating income	0	0	0	0
Total income	2,324	2,229	2,372	2,491
Cost of goods sold	1,985	1,904	2,026	2,127
Contribution (%)	*14.6%*	*14.6%*	*14.6%*	*14.6%*
Advt/Sales/Distrn O/H	81.1	78.9	85.4	89.7
Operating Profit	**257**	**246**	**261**	**274**
Other income	5	16	17	21
	11%			
PBIDT	**262**	**262**	**278**	**295**
Depreciation	41	36	45	46
Interest & Fin Chg.	3	3	2	2
E/o income / (Expense)	0	0	0	0
Pre-tax profit	**218**	**223**	**232**	**247**
Tax provision	56	57	59	63
Other Comprehensive Income	0	0	0	0
Adjusted PAT	0	0	0	0
Reported PAT	-1.1	-1.2	-0.4	-0.4

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Y/E March	FY23A	FY24	FY25E	FY26E
Total assets	**791**	**903**	**1,025**	**1,143**
Net Block	216.7	200.8	192.3	191.0
CWIP	6.5	5.7	9.7	14.7
Investments	16.1	41.0	41.0	41.0
Wkg. cap. (excl cash)	506	572	623	640
Cash / Bank balance	46.5	83.3	158.7	256.1
Misc. Assets	0.0	0.0	0.0	0.0
Capital employed	**791**	**903**	**1,025**	**1,143**
Equity capital	15.1	15.1	15.1	15.1
Reserves	744	861	986	1,109
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	32	27	23	19
DefTax Liabilities	0.0	0.0	0.0	0.0

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E March	FY23A	FY24	FY25E	FY26E
Sources	**170**	**149**	**187**	**196**
Cash profit	206	205	219	232
(-) Dividends	23	48	27	30
Retained earnings	184	157	192	202
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	0.0	(1.2)	1.2	0.0
Borrowings	4.6	(5.1)	(4.0)	(4.0)
Others	(18.4)	(1.2)	(2.1)	(1.6)
Applications	**170**	**149**	**187**	**196**
Capital expenditure	18.3	16.9	40.0	50.0
Investments	(0.6)	25.0	0.0	0.0
Net current assets	186.2	70.6	53.8	18.4
Change in cash	(34.0)	36.8	93.4	127.6

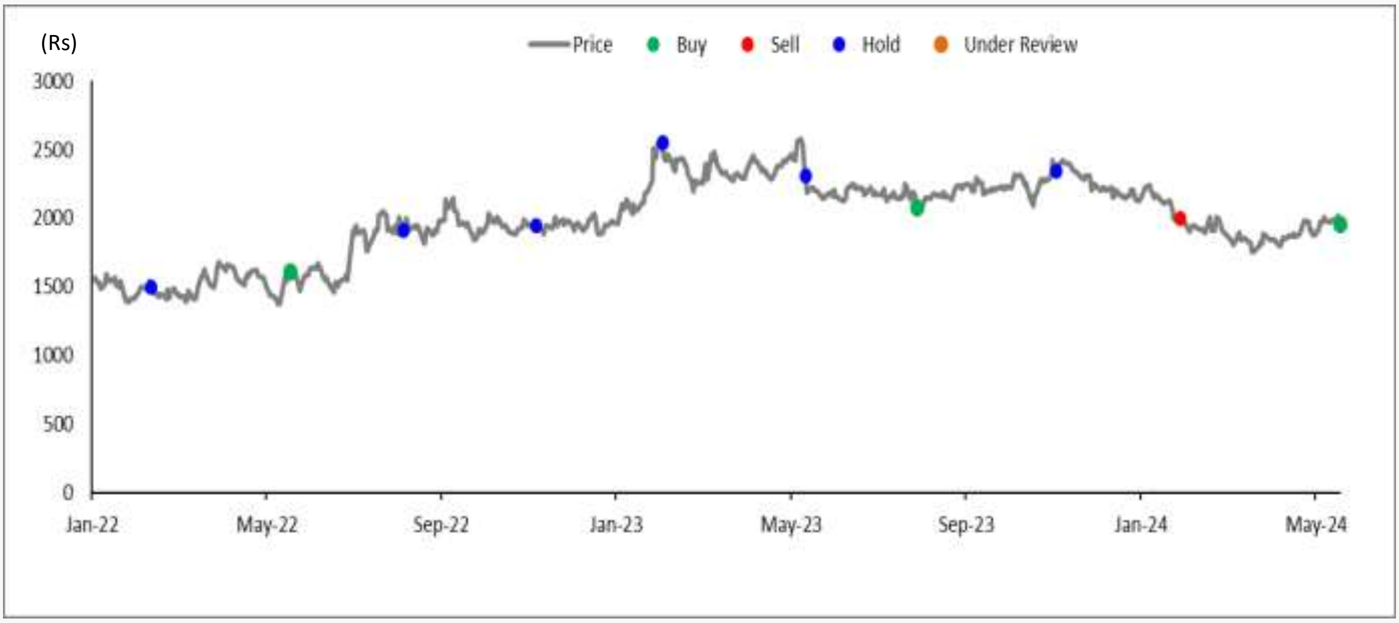
Source: Company, Axis Securities

Ratio Analysis (%)

Y/E March	FY23A	FY24	FY25E	FY26E
Sales growth %	55.9	**-4.1**	**6.4**	**5.0**
OPM	11.1	**11.0**	**11.0**	**11.0**
Oper. profit growth	91.2	-4.3	6.0	5.0
COGS / Net sales	85.4	85.4	85.4	85.4
Overheads/Net sales	3.5	3.5	3.6	3.6
Depreciation / G. block	9.2	7.7	8.8	8.4
Effective interest rate	11.3	10.6	10.8	10.5
Net wkg.cap / Net sales	0.16	0.23	0.24	0.24
Net sales / Gr block (x)	5.2	4.7	4.7	4.5
RoCE	30.8	**26.8**	**24.4**	**22.9**
Debt / equity (x)	0.04	0.02	0.02	0.01
Effective tax rate	25.7	25.5	25.5	25.5
RoE	22.9	**19.6**	**17.9**	**16.7**
Payout ratio (Div/NP)	14.1	29.3	28.1	33.2
EPS (Rs.)	**107.2**	**109.9**	**114.3**	**120.9**
EPS Growth %	117.9	2.5	3.9	5.8
CEPS (Rs.)	133.9	133.2	143.5	151.3
DPS (Rs.)	15.0	32.0	32.0	40.0

Source: Company, Axis Securities

Automotive Axles Price Chart and Recommendation History



Date	Reco	TP	Research
14-Feb-22	HOLD	1,600	Result Update
23-May-22	BUY	1,840	Result Update
10-Aug-22	HOLD	2,050	Result Update
10-Nov-22	HOLD	2,130	Result Update
07-Feb-23	HOLD	2,690	Result Update
19-May-23	HOLD	2,550	Result Update
07-Aug-23	BUY	2,300	Result Update
11-Nov-23	HOLD	2,400	Result Update
06-Feb-24	SELL	1,800	Result Update
29-May-24	BUY	2,175	Result Update

Source: Axis Securities

About the Analyst

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