

26 June 2024

India | Equity Research | Company Update

ASK Automotive

Auto Ancillaries

Entering a period of robust growth and capital efficiency

We interacted with the management of ASK Automotive (ASK) and following are the takeaways: 1) ASK has recently secured orders of aluminium castings for exports to OEMs like Ford/Stellantis, helping it gradually move towards 10% exports to sales from ~3-4% currently, 2) ASK, through its new plant in Karnataka, is planning to make HPDC scooter alloy wheels with tech support from Taiwanese partner LioHo, subject to testing and validation ahead, 3) it is aiming to exceed 13% EBITDAM (including fly-wheel revenue) by FY26 vs FY24 exit rate of ~11%, driven by government incentives, better mix/scale, 4) capex to remain ~INR 3bn p.a.; ASK is confident of delivering revenue CAGR of ~18-20% in coming years. Maintain **BUY** with DCF-based revised TP of INR 447 (earlier INR 405), implying 24x FY26E EPS. Rise in TP is being driven by revenue increase and valuation rollover.

Confident of delivering revenue CAGR of ~18-20% in FY24-26

Driven by rising demand for aluminium casting (~42% mix) across domestic PVs/2Ws and export markets, ASK is confident of delivering ~18-20% revenue CAGR in FY24-26, amidst ~8-10% revenue CAGR outlook in 2W braking solutions (~38% mix). Factors like rising mix of EVs, rising focus on lightweighting, need for better thermal management and continued premiumisation across PV/2Ws are helping in rising acceptance of aluminium content per unit. Rising traction with 2W players beyond HMSI, faster growth in exports over domestic revenue, potential new product addition like alloy wheel and focus on aftermarket business expansion may help ASK to continue outperforming domestic 2W market and deliver robust revenue CAGR ahead.

Improving margin and steady capex to drive RoCE to ~30%

ASK is set to improve EBITDAM back to ~13% by FY26E from current ~11% on the back of improving scale, improving export mix, state-level incentives and stable commodity prices. With exports revenue mix aimed to move to ~10% from present ~4% levels and exports EBITDAM being ~25-30% vs domestic margin of ~12-13%, we believe rising exports should take care of a third of margin improvement in next 3-4 years, with the rest being contributed by state incentives and scale. With capex set to be around ~INR 3bn p.a., in order to drive revenue CAGR by ~20% (fixed asset turn of ~2x), rising revenue and margin would aid in improving FCF generation along with pushing pre-tax RoCE towards ~30%.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	25,551	29,937	36,017	43,503
EBITDA	2,363	2,998	4,394	5,742
EBITDA %	9.2	10.0	12.2	13.2
Net Profit	1,228	1,729	2,826	3,824
EPS (INR)	6.2	8.8	14.3	19.4
EPS % Chg YoY	48.8	40.8	63.5	35.3
P/E (x)	56.5	40.2	24.6	18.2
EV/EBITDA (x)	25.2	19.9	13.8	10.3
RoCE (%)	15.1	16.8	21.3	24.1
RoE (%)	19.3	23.7	29.2	31.2

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Market Data

Market Cap (INR)	69bn
Market Cap (USD)	832mn
Bloomberg Code	ASKAUTOL IN
Reuters Code	ASKA.BO
52-week Range (INR)	372 /240
Free Float (%)	15.0
ADTV-3M (mn) (USD)	1.5

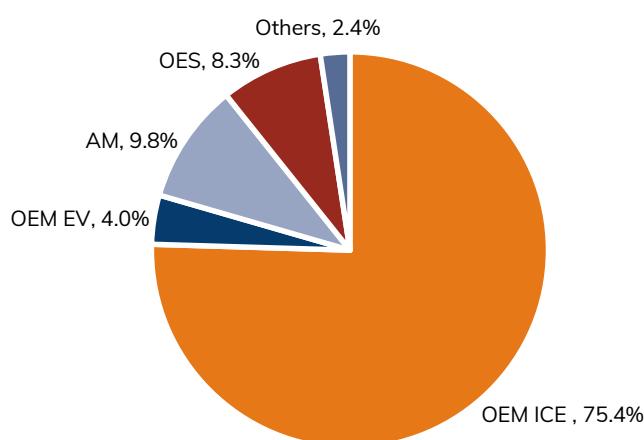
Price Performance (%)	3m	6m	12m
Absolute	28.4	25.9	0.0
Relative to Sensex	21.3	16.1	0.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	14.3	13
EBITDA	11.5	9.7
EPS	14.5	11.5

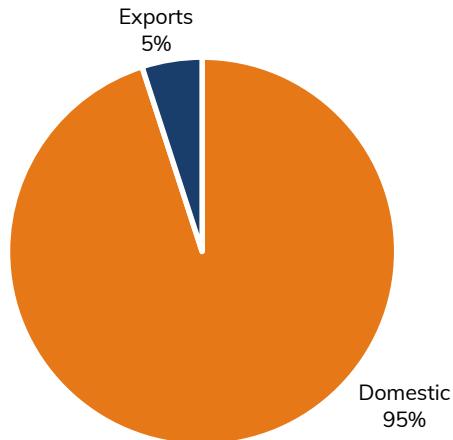
Previous Reports

21-05-2024: [Q4FY24 results review](#)

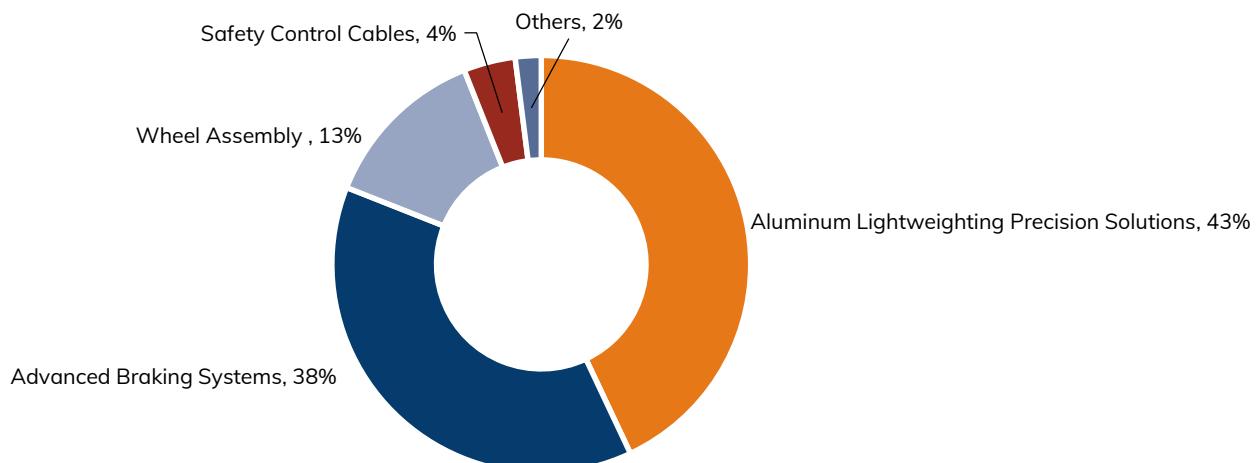
07-02-2024: [Q3FY24 results review](#)

Exhibit 1: FY24 revenue breakdown by channel


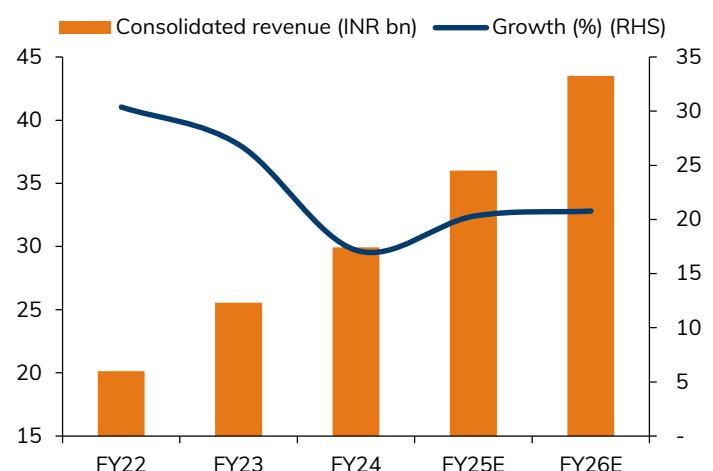
Source: I-Sec research, Company PPT

Exhibit 2: FY24 revenue breakdown by geography


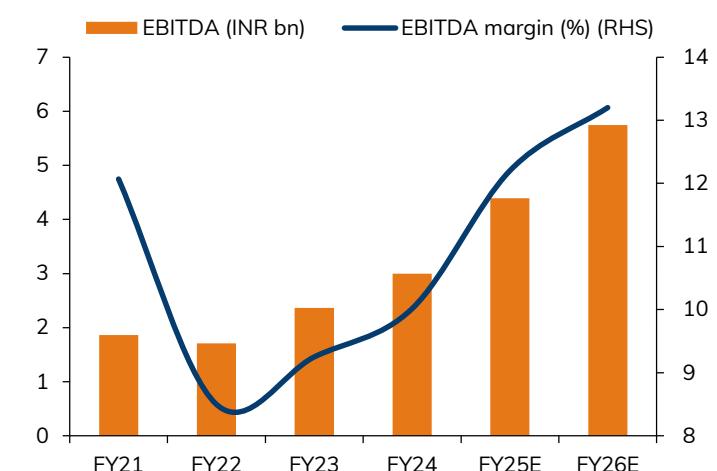
Source: I-Sec research, Company PPT

Exhibit 3: FY24 revenue by product segments


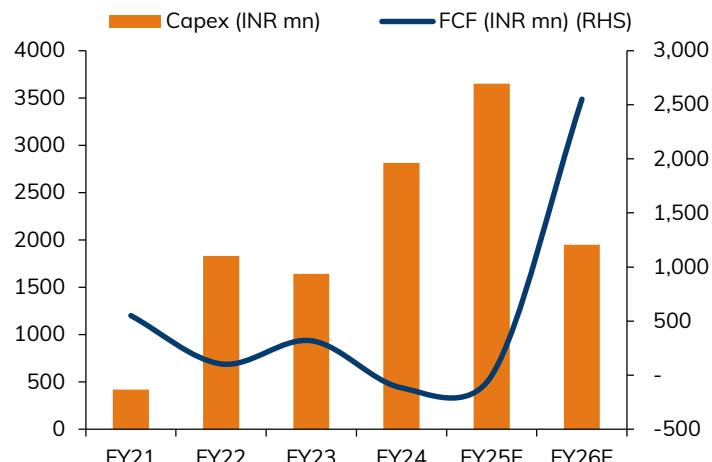
Source: Company data

Exhibit 4: Consolidated revenue vs. growth trend


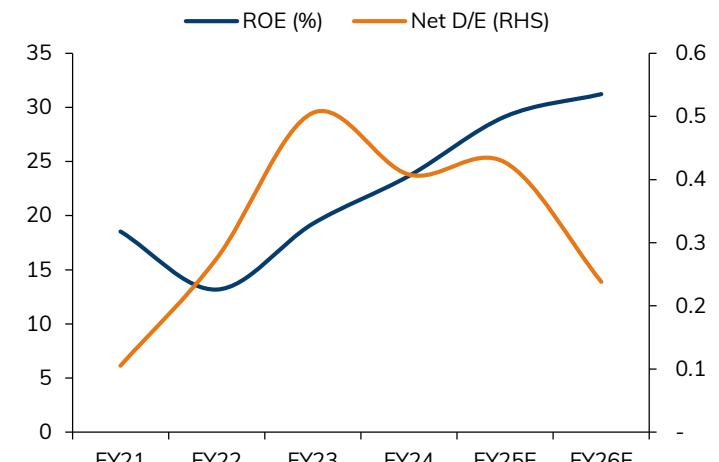
Source: I-Sec research, Company data

Exhibit 5: EBITDA vs EBITDA margin trend


Source: I-Sec research, Company data

Exhibit 6: Capex vs FCF trend


Source: I-Sec research, Company data

Exhibit 7: RoE vs net debt/equity


Source: I-Sec research, Company data

Exhibit 8: Estimates revision

	FY25E			FY26E		
	Old	Revised	% change	Old	Revised	% change
Revenue (INR mn)	31,517	36,017	14.3%	38,503	43,503	13.0%
EBITDA (INR mn)	3,940	4,394	11.5%	5,236	5,742	9.7%
EBITDA margin (%)	12.5%	12.2%	-30 bps	13.6%	13.2%	-40 bps
PAT (INR mn)	2,485	2,826	14.5%	3,445	3,824	11.5%
EPS (INR)	11.9	13.7	14.5%	16.8	18.7	11.5%

Source: I-Sec research

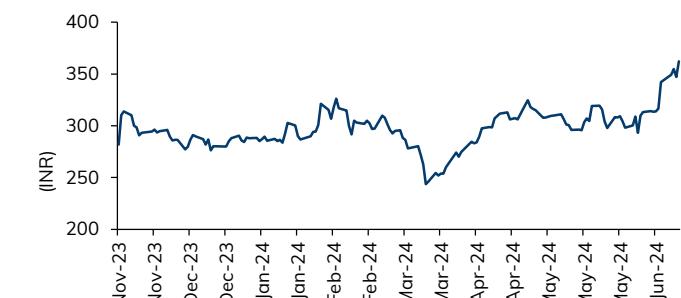
Downside risks

- Concentration of revenue from 2W segment (~80%). Any major adversity impacting retail demand of 2Ws in India, such as issues related to financing, weak consumer sentiment across rural/urban markets, regulatory changes etc. could adversely impact ASK's business.
- ASK's revenue is dependent on its top three customers (more than 50% of revenue) with its single largest customer, HMSI, contributing more than 30% to its revenue from operations. Production loss of any of these customers, or a reduction in wallet share from any of them could adversely affect ASK's business, results of operations and financial condition.
- Competition in aluminum casting is higher vs 2W braking solutions. Thus, inability to improve in margins in aluminum segment can be a hurdle to overall EBITDAM improving from its present ~10% to the targeted ~14% levels.
- Clean balance sheet and improving FCF might lure ASK into inorganic deals and put RoCE under risk.

Exhibit 9: Shareholding pattern

%	Dec'23	Mar'24
Promoters	85.0	85.0
Institutional investors	7.4	8.5
MFs and others	1.9	1.8
Fls/Banks	1.1	0.5
Insurance	0.7	1.7
FII	3.7	4.5
Others	7.6	6.5

Source: Bloomberg, I-Sec research

Exhibit 10: Price chart


Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	25,551	29,937	36,017	43,503
Operating Expenses	5,370	6,514	7,383	8,875
EBITDA	2,363	2,998	4,394	5,742
EBITDA Margin (%)	9.2	10.0	12.2	13.2
Depreciation & Amortization	607	690	750	850
EBIT	1,756	2,308	3,644	4,892
Interest expenditure	112	286	250	200
Other Non-operating Income	111	104	130	140
Recurring PBT	1,755	2,126	3,524	4,832
Profit / Loss from Associates	-	-	-	-
Less: Taxes	468	562	899	1,228
PAT	1,287	1,564	2,626	3,604
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,228	1,729	2,826	3,824
Net Income (Adjusted)	1,228	1,729	2,826	3,824

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	4,005	4,548	5,528	6,916
of which cash & cash eqv.	24	127	208	491
Total Current Liabilities & Provisions	2,559	3,493	4,202	5,075
Net Current Assets	1,445	1,055	1,326	1,840
Investments	40	205	200	200
Net Fixed Assets	7,258	9,922	12,822	13,922
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,182	642	642	642
Total Intangible Assets	-	-	-	-
Other assets	326	332	400	483
Deferred Tax assets	-	-	-	-
Total Assets	10,253	12,157	15,390	17,087
Liabilities				
Borrowings	3,279	3,459	4,530	3,280
Deferred Tax Liability	280	229	280	280
Provisions	-	-	-	-
Other Liabilities	257	302	257	257
Equity Share Capital	394	394	394	394
Reserves & Surplus	6,043	7,773	9,930	12,877
Total Net Worth	6,438	8,167	10,324	13,271
Minority Interest	-	-	-	-
Total Liabilities	10,253	12,157	15,390	17,087

Source Company data, I-Sec research

Exhibit 13: 5 stage Du-Pont

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Tax Burden	0.7	0.8	0.8	0.8
Interest Burden (PBT/EBIT)	1.0	0.9	1.0	1.0
EBIT Margin	7%	8%	10%	11%
Asset Turnover	2.5	2.5	2.4	2.6
Financial Leverage	1.6	1.5	1.5	1.3
ROE	19.3	23.7	29.2	31.2

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,962	2,697	3,559	4,220
Working Capital Changes	15	(8)	(137)	(514)
Capital Commitments	(1,643)	(2,813)	(3,650)	(1,950)
Free Cashflow	319	(117)	(91)	2,270
Other investing cashflow	(40)	(165)	5	-
Cashflow from Investing Activities	(1,684)	(2,978)	(3,645)	(1,950)
Issue of Share Capital	(10)	-	-	-
Interest Cost	(112)	(286)	(250)	(200)
Inc (Dec) in Borrowings	1,525	180	1,071	(1,250)
Dividend paid	-	-	-	-
Others	(1,680)	480	(653)	(538)
Cash flow from Financing Activities	(277)	374	168	(1,988)
Chg. in Cash & Bank balance	2	93	82	282
Closing cash & balance	24	127	208	491

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.2	8.8	14.3	19.4
Adjusted EPS (Diluted)	6.2	8.8	14.3	19.4
Cash EPS	9.3	12.3	18.1	23.7
Dividend per share (DPS)	-	1.8	2.7	3.7
Book Value per share (BV)	32.7	41.4	52.4	67.3
Dividend Payout (%)	-	11.4	20.0	20.0
Growth (%)				
Net Sales	26.9	17.2	20.3	20.8
EBITDA	38.1	26.9	46.6	30.7
EPS (INR)	48.8	40.8	63.5	35.3
Valuation Ratios (x)				
P/E	56.5	40.2	24.6	18.2
P/CEPS	37.8	28.7	19.4	14.9
P/BV	10.8	8.5	6.7	5.2
EV / EBITDA	25.2	19.9	13.8	10.3
EV / Sales	2.3	2.0	1.7	1.4
Profitability Ratios				
Gross Profit Margins (%)	30.3	31.8	32.7	33.6
EBITDA Margins (%)	9.2	10.0	12.2	13.2
EBIT Margins (%)	6.9	7.7	10.1	11.2
Net Profit Margins (%)	4.8	5.8	7.8	8.8
RoCE (%)	15.1	16.8	21.3	24.1
RoE (%)	19.3	23.7	29.2	31.2
Dividend Yield (%)	-	0.5	0.8	1.1
Operating Ratios				
Fixed Asset Turnover (x)	3.0	2.8	2.7	3.0
Inventory Turnover Days	22	22	22	22
Receivables Days	30	26	26	26
Payables Days	24	30	30	30
Effective Tax Rate (%)	26.7	26.4	25.5	25.4
Net Debt / Equity (x)	0.5	0.4	0.4	0.2
Net Debt / EBITDA (x)	1.4	1.1	1.0	0.5

Source Company data, I-Sec research

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