

## Automotive Axles

### Performance Update

Quarterly (₹ cr)	Q4FY19	Q4FY18	% yoy	Q3FY19	% qoq
Net sales	481	469	3%	486	-1%
EBITDA	58	55	7%	56	4%
EBITDA margin (%)	12.1%	11.6%	49	11.5%	11
Adjusted PAT	29.84	26.40	13.0%	30.79	-3%

In Q4FY2019, net sales of Automotive Axle Ltd. (AAL) were marginally up by 2% on yoy basis and stood at ₹481cr on the back of slowdown in commercial vehicle sales during the quarter. Gross margin improved by 36bps yoy resulting in an overall improvement of OPM by 49bps yoy to 12.14%, which aided EBDTA to grow at 7% yoy to ₹58cr as compared to ₹55cr in Q4FY2018. Profit for Q4FY2019 jumped by 13% yoy to ₹30cr owing to the stable interest and depreciation cost. Overall, Automotive Axle has delivered good performance in tough environment where OEM sales and production has been flat during the quarter under review.

Management has given very cautious guidance of flattish growth in revenue for FY2020 due to the ongoing slowdown and upcoming BS-VI transition, which as per management may impact the overall industry growth.

The management expects to deliver revenue in the range of ₹1,900-2,000cr in FY20. However, management believes that growth should pick-up from Q1/Q2FY2021.

PBT margin is expected to be in the range of 8.7-9.2% on account of higher depreciation and interest costs.

Key things to watch for: (1) Growth in revenue from slip suspension; (2) Capacity utilization & expansion plan; and (3) Increasing pie from exports segment.

**Outlook & Valuation:** We believe that AAL is comfortably placed to tap the upcoming opportunity in the industry owing to improving road infra, BS-VI pre-buying and foray into new segment coupled with expansion of capacity by 35-40%. However, medium term scenario looks tough, but long term prospects seem positive. At the CMP of ₹1,192, the stock is available at 15X its FY2021E EPS of ₹78. We assign a multiple of 17.5X and recommend **HOLD** on AAL with a Target Price of ₹1,400, implying an upside of 18% over the next 9-12 months.

### Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
Net Sales	1,519	1,939	1,980	2,131
% chg	30	28	2	8
Net Profit	84	122	109	118
% chg	70	45	(10)	9
EBITDA (%)	11.0%	11.8%	12.0%	11.9%
EPS (Rs)	56	80	72	78
P/E (x)	21	15	16.3	15.0
P/BV (x)	4.0	3.3	2.8	2.4
RoE (%)	18.9	22.6	17.3	16.3
RoCE (%)	27.9	30.3	23.5	23.2
EV/EBITDA	10.4	7.9	7.6	6.7

Source: Company, Angel Research

Valuation done based on 27th May, 2019 closing price

Please refer to important disclosures at the end of this report

## HOLD

CMP ₹1192

Target Price ₹1400

Investment Period 12 Months

### Stock Info

Sector	Auto Ancillary
Market Cap (₹ cr)	1,830
Net Debt (₹ cr)	20
Beta	0.9
52 Week High / Low	1552/991
Avg. weekly Volume	4,058
Face Value (₹)	10
BSE Sensex	39,683
Nifty	11,924
Reuters Code	ATO.A.BO
Bloomberg Code	ATXL IN

### Shareholding Pattern (%)

Promoters	71.0
MF / Banks / Indian Fls	9.5
FII / NRIs / OCBs	1.3
Indian Public / Others	18.2

Abs.(%)	3m	1yr	3yr
Sensex	10.5	13.6	44.0
Automotive Axles	0.3	(11.5)	58.4

### 3years performance chart



Source: Company, Angel Research

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**Company Background**

Established in 1981, Automotive Axles Limited (AAL) is a joint venture of Kalyani Group and Meritor Inc., USA. With manufacturing facilities located at Mysore (Karnataka) and Jamshedpur (Jharkhand), the company manufactures drive axles, non-drive axles, front steer axles, specialty & defence axles and drum & disc brakes. It provides these products to major domestic and global manufacturers of trucks & buses pertaining to segments such as light, medium & heavy commercial vehicles, military & off-highway vehicles, aftermarket and exports. As a continuous process, the company believes in introducing new products regularly in order to meet the emerging needs of the commercial vehicle market.

**About JV with Meritor**

The products manufactured by AAL are based on technology provided by the parent Meritor Inc., USA. The technology transfer by Meritor Inc. is routed through its 51% subsidiary in India – Meritor HVS (India) Limited (MHVSIL). MHVSIL is also responsible for customer sourcing, interaction and marketing for AAL, with almost the entire sales of AAL routed through MHVSIL. MHVSIL is 51:49 JV between Meritor International, USA and Bharat Forge with Meritor holding majority stake. AAL manufactures and sells axles, components, brake components and subassemblies to MHVSIL, which in turn sells it to the end customer.

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### Quarterly performance

In Cr	Q4FY19	Q4FY18	Q3FY19	YOY %	QOQ%
<b>Net Sales</b>	<b>481</b>	<b>469</b>	<b>486</b>	2.5%	-1.0%
Total Income	481	469	486	2.5%	-1.0%
<b>Total Expenditure</b>	<b>423</b>	<b>414</b>	<b>430</b>	2.0%	-1.7%
Raw Material Consumed	292	330	396	-12%	-26%
Stock Adjustment	48	0	-60	NA	-180%
Purchase of Finished Goods	0	0	0	NA	NA
<b>COGS</b>	<b>340</b>	<b>330</b>	<b>335</b>	3.1%	1.4%
Employee Expenses	29	27	31	9.2%	-6.5%
% of sales	6.1%	5.7%	6.4%	7%	-6%
Other Expenses	53	58	63	-8%	-16%
As a % of sales	11.1%	12.3%	13.0%		
Raw Material Consumed	60.7%	70.3%	81.4%		
Stock Adjustment	10.0%	0.0%	-12.4%		
Purchase of Finished Goods	0.0%	0.0%	0.0%		
<b>COGS</b>	<b>70.7%</b>	<b>70.3%</b>	<b>69.0%</b>		
Gross Margin %	29.3%	29.7%	31.0%	-36	
Other Expenses	11.1%	12.3%	13.0%		
<b>EBITDA</b>	<b>58</b>	<b>55</b>	<b>56</b>	7%	4%
Other Income	0.47	0.9	0.7	-47%	-34%
Interest	0.01	0.2	0.2	-93%	-92%
PBDT	58.83	55.34	56.60	NA	4%
Depreciation	9.97	12	11	-16%	-13%
<b>PBT</b>	<b>48.86</b>	<b>43.45</b>	<b>45.15</b>	12%	8%
Tax	19.03	17	14	12%	33%
<b>PAT</b>	<b>30</b>	<b>26</b>	<b>31</b>	13%	-3%
<b>Ratios</b>				<b>BPS</b>	<b>BPS</b>
EBITDA margin (%)	12.14%	11.65%	11.54%	49	60
PAT margin %	6.20%	5.63%	6.34%	57	-14
Tax rate %	38.94%	39.24%	31.79%	-30	715

Source: Company, Angel Research

### Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20E	FY21E
<b>Total operating income</b>	<b>1,519</b>	<b>1,939</b>	<b>1,980</b>	<b>2,131</b>
% chg	30	28	2	8
<b>Total Expenditure</b>	<b>1,352</b>	<b>1,710</b>	<b>1,742</b>	<b>1,877</b>
Raw Material	1,079	1,380	1,396	1,494
Personnel	99	124	119	128
Selling and Administration Expenses	23	-	20	21
Others Expenses	151	207	208	234
<b>EBITDA</b>	<b>167</b>	<b>229</b>	<b>238</b>	<b>254</b>
% chg	47	37	4	7
(% of Net Sales)	11.0%	11.8%	12.0%	11.9%
Depreciation & Amortization	43	46	64	72
<b>EBIT</b>	<b>124</b>	<b>183</b>	<b>173</b>	<b>182</b>
% chg	67	48	(5)	5
(% of Net Sales)	8	9	9	9
Interest & other Charges	1	1	11	6
Other Income	5	3	3	4
<b>Recurring PBT</b>	<b>128</b>	<b>185</b>	<b>166</b>	<b>180</b>
% chg	70	45	(11)	9
Tax	44	64	57	62
<b>PAT (reported)</b>	<b>84</b>	<b>122</b>	<b>109</b>	<b>118</b>
% chg	70	45	(10)	9
(% of Net Sales)	5.5	6.3	5.5	5.5
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>56</b>	<b>80</b>	<b>72</b>	<b>78</b>
% chg	70	45	(10)	9

Source: Company, Angel Research

### Balance sheet

Y/E March (₹cr)	FY18	FY19	FY20E	FY21E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	15.1	15.1	15.1	15.1
Reserves & Surplus	429	523	614	712
<b>Shareholders Funds</b>	<b>444</b>	<b>538</b>	<b>629</b>	<b>727</b>
Total Loans	-	66	110	60
Other Liabilities	2	0	0	0
<b>Total Liabilities</b>	<b>446</b>	<b>604</b>	<b>739</b>	<b>787</b>
<b>APPLICATION OF FUNDS</b>				
<b>Net Block</b>	<b>118</b>	<b>109</b>	<b>172</b>	<b>164</b>
Capital Work-in-Progress	17	116	116	116
Investments	6	15	15	16
Long Term Loans & Advances	21	45	46	46
<b>Current Assets</b>	<b>570</b>	<b>642</b>	<b>753</b>	<b>848</b>
Inventories	137	184	163	175
Sundry Debtors	350	346	434	467
Cash	44	40	90	139
Loans & Advances	1	6	6	6
Investments & Others	37	65	61	60
<b>Current liabilities</b>	<b>285</b>	<b>321</b>	<b>362</b>	<b>403</b>
<b>Net Current Assets</b>	<b>285</b>	<b>321</b>	<b>391</b>	<b>445</b>
Other Non Current Asset	-	-	-	-
<b>Total Assets</b>	<b>446</b>	<b>604</b>	<b>739</b>	<b>787</b>

Source: Company, Angel Research

### Cash Flow

Y/E March (₹cr)	FY18	FY19	FY20E	FY21E
Profit before tax	128	185	166	180
Depreciation	43	46	64	72
Change in Working Capital	81	(22)	(49)	22
Interest / Dividend (Net)	1	1	11	6
Direct taxes paid	44	64	57	62
Others	(245)	(92)	(9)	(107)
<b>Cash Flow from Operations</b>	<b>51</b>	<b>182</b>	<b>240</b>	<b>235</b>
(Inc.)/ Dec. in Fixed Assets	(30)	9	101	101
(Inc.)/ Dec. in Investments	3	(9)	(0)	(1)
<b>Cash Flow from Investing</b>	<b>(27)</b>	<b>0</b>	<b>100</b>	<b>100</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-	66	44	-50
Others	(15)	(253)	(335)	(235)
<b>Cash Flow from Financing</b>	<b>(15)</b>	<b>(187)</b>	<b>(290)</b>	<b>(285)</b>
Inc./(Dec.) in Cash	9	(4)	50	49
<b>Opening Cash balances</b>	<b>35</b>	<b>44</b>	<b>40</b>	<b>90</b>
<b>Closing Cash balances</b>	<b>44</b>	<b>40</b>	<b>90</b>	<b>139</b>

Source: Company, Angel Research

### Key Ratio

Y/E March	FY18	FY19	FY20E	FY21E
P/E (on FDEPS)	21	15	16	15
P/CEPS	10	8	8	7
P/BV	4	3	3	2
EV/Sales	1	1	1	1
EV/EBITDA	10	8	8	7
EV / Total Assets	2	2	2	1
<b>Per Share Data (Rs)</b>				
EPS (Basic)	56	80	72	78
EPS (fully diluted)	56	80	72	78
Cash EPS	113	152	151	166
DPS	14	20	14	14
Book Value	294	356	416	481
<b>Returns (%)</b>				
ROCE	28	30	23	23
Angel ROIC (Pre-tax)	33	42	33	35
ROE	19	23	17	16
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	33	35	30	30
Receivables (days)	84	65	80	80
Payables (days)	62	49	60	60
Working capital cycle (ex-cash) (days)	55	51	50	50

Source: Company, Angel Research

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Disclosure of Interest Statement	Automotive Axles
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No