

## Automotive Axles

### Performance Update

Quarterly (₹ cr)	Q3FY19	Q3FY18	% yoy	Q2FY19	% qoq
<b>Net sales</b>	<b>486</b>	<b>408</b>	<b>19%</b>	<b>498</b>	<b>-3%</b>
EBITDA	56	44	26%	59	-5%
EBITDA margin (%)	11.5%	10.8%	63	11.8%	-97
<b>Adjusted PAT</b>	<b>30.39</b>	<b>21.19</b>	<b>43.4%</b>	<b>32.00</b>	<b>-5%</b>

In Q3FY2019, on standalone basis, revenue of Automotive Axles Ltd. (AAL) was up 19% yoy at ₹486cr despite the slowdown in commercial vehicles during the quarter. However, on qoq basis, revenue was lower by 3%. OPM improved by 63bps yoy to 11.45% on account of better utilization, EBITDA was higher 26% yoy to ₹56cr as compared to ₹44cr in Q3FY2018. Profit for Q3FY2019 increased to ₹30cr on the back of stable depreciation cost, which aid PAT growth of 43% to ₹30cr yoy basis. All in all, for the quarter under review, Automotive Axles has delivered good performance in a tough environment where the sales and production of OEMs has remained flat.

For 9MFY2019, AAL has reported 34% yoy growth in top-line to ₹1,458cr from ₹1,084cr in 9MFY2018. Operating profit also improved by 53% yoy to ₹171cr as against ₹112cr in 9MFY2018. OPM improved by 140bps to 11.7% yoy vs. 10.3% during the same period last year on account of improving utilization on various cost efficiency measures. Profit came in higher by 65% yoy ₹92cr as against ₹52cr in 9MFY2018.

We expect, AAL's revenue to register 30% CAGR over FY2018-20E to ₹2,584cr and PAT to grow at 31% CAGR during the same period to ₹147cr.

Going forward, we expect utilization to improve further on account of increasing demand in M&HCV and LCV segments; further availability of finance will also improve the sentiment in the industry.

**Key things to watch for:** (1) Growth in revenue from slip suspension, (2) Capacity utilization and expansion plans, and (3) Increasing pie from export revenue.

**Outlook & Valuation:** We believe 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 segments coupled with expansion of capacity by 35-40%. At the CMP of ₹1,109, the stock is available at 12x its FY2020E EPS of ₹ 97. We have assigned a multiple of 15x and recommend BUY on AAL with a Target Price of ₹1,450, implying an upside of 30%.

### Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>Net Sales</b>	<b>1,172</b>	<b>1,519</b>	<b>2,070</b>	<b>2,584</b>
% chg	8	30	36	25
<b>Net Profit</b>	<b>49</b>	<b>84</b>	<b>128</b>	<b>147</b>
% chg	42	70	52	15
EBITDA (%)	9.7%	11.0%	12.0%	10.8%
<b>EPS (Rs)</b>	<b>33</b>	<b>56</b>	<b>84</b>	<b>97</b>
P/E (x)	34	20	13	11.4
P/BV (x)	4.4	3.8	3.0	2.5
RoE (%)	13.1	18.9	23.2	21.8
RoCE (%)	19.7	27.9	32.3	29.2
EV/EBITDA	14.4	9.8	6.2	5.4

Source: Company, Angel Research

Valuation done based on 12th February, 2019 closing price

## BUY

CMP ₹1109  
Target Price ₹1450

Investment Period 12 Months

### Stock Info

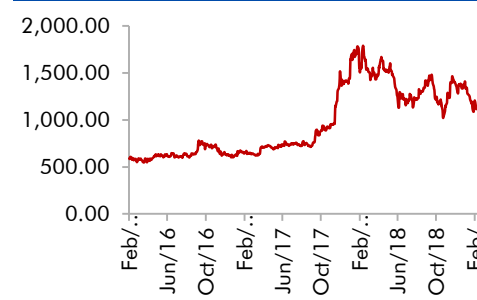
Sector	Auto Ancillary
Market Cap (₹ cr)	1,676
Net Debt (₹ cr)	-
Beta	0.9
52 Week High / Low	1820/991
Avg. weekly Volume	4,014
Face Value (₹)	10
BSE Sensex	36,153
Nifty	10,831
Reuters Code	ATO.A.BO
Bloomberg Code	ATXL IN

### Shareholding Pattern (%)

Promoters	71.0
MF / Banks / Indian Fls	8.9
FII / NRIs / OCBs	1.4
Indian Public / Others	18.7

Abs.(%)	3m	1yr	3yr
Sensex	(4.1)	6.3	26.7
Automotive Axles	(22.1)	(35.6)	52.5

### 3years performance chart



Source: Company, Angel Research

**Kripashankar Maurya**

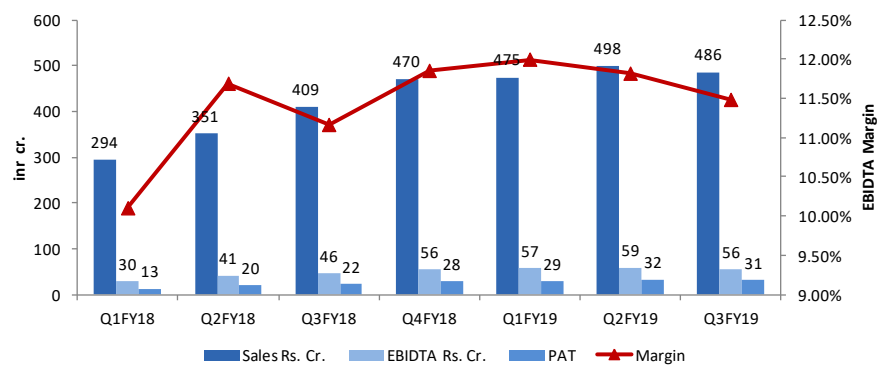
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### 3QFY2019 Performance

In Cr	Q3FY19	Q3FY18	Q2FY19	YOY %	QOQ%
<b>Net Sales</b>	<b>486</b>	<b>408</b>	<b>498</b>	19%	-3%
Total Income	486	408	498	19%	-3%
<b>Total Expenditure</b>	<b>430</b>	<b>364</b>	<b>440</b>	18%	-2%
Raw Material Consumed	396	292	350	36%	13%
Stock Adjustment	-60	-7	-10	NA	NA
Purchase of Finished Goods	0	0	0	NA	NA
<b>COGS</b>	<b>335</b>	<b>284</b>	<b>340</b>	18%	-1%
Employee Expenses	32	28	31	11%	1%
% of sales	0	0	0		
Other Expenses	63	51	68	24%	-7%
As a % of sales	13%	12%	14%		
Raw Material Consumed	81%	71%	70%		
Stock Adjustment	-12%	-2%	-2%		
Purchase of Finished Goods	0%	0%	0%		
COGS	69%	70%	68%		
Gross Margin %	31%	30%	32%		
Other Expenses	13%	12%	14%		
<b>EBITDA</b>	<b>56</b>	<b>44</b>	<b>59</b>	26%	-5%
Other Income	0.72	1.2	0.9	-38%	-17%
Interest	0.15	0.1	0.2	28%	-23%
PBDT	56.19	45.19	59.45	NA	-5%
Depreciation	11.45	12	12	-2%	-7%
<b>PBT</b>	<b>44.74</b>	<b>33.56</b>	<b>47.20</b>	33%	-5%
Tax	14.35	12	15	16%	-6%
PAT	30	21	32	43%	-5%
<b>Ratios</b>				<b>BPS</b>	<b>BPS</b>
EBITDA margin (%)	11.45%	10.83%	11.79%	63	-34
PAT margin %	6.26%	5.20%	6.42%	106	-16
Tax rate %	32.08%	36.85%	32.21%	-478	-13

### Quarterly performance charts



Source: Company, Angel Research

**Income statement**

Y/E March (₹ cr)	FY17	FY18	FY19E	FY20E
<b>Total operating income</b>	<b>1,172</b>	<b>1,519</b>	<b>2,070</b>	<b>2,584</b>
% chg	8	30	36	25
<b>Total Expenditure</b>	<b>1,059</b>	<b>1,352</b>	<b>1,821</b>	<b>2,304</b>
Raw Material	826	1,079	1,449	1,809
Personnel	81	99	124	155
Selling and Administration Expenses	21	23	31	41
Others Expenses	130	151	217	299
<b>EBITDA</b>	<b>114</b>	<b>167</b>	<b>248</b>	<b>280</b>
% chg	20	47	49	13
(% of Net Sales)	9.7%	11.0%	12.0%	10.8%
Depreciation & Amortisation	39	43	54	51
<b>EBIT</b>	<b>74</b>	<b>124</b>	<b>194</b>	<b>229</b>
% chg	33	67	57	18
(% of Net Sales)	6	8	9	9
Interest & other Charges	1	1	5	11
Other Income	2	5	5	5
<b>Recurring PBT</b>	<b>75</b>	<b>128</b>	<b>194</b>	<b>223</b>
% chg	46	70	52	15
Tax	26	44	67	77
<b>PAT (reported)</b>	<b>49</b>	<b>84</b>	<b>128</b>	<b>147</b>
% chg	42	70	52	15
(% of Net Sales)	4.2	5.5	6.2	5.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	<b>33</b>	<b>56</b>	<b>84</b>	<b>97</b>
% chg	42	70	52	15

Source: Company, Angel Research

**Balance sheet**

Y/E March (₹cr)	FY17	FY18	FY19E	FY20E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	15.1	15.1	15.1	15.1
Reserves & Surplus	361	429	535	657
<b>Shareholders Funds</b>	<b>377</b>	<b>444</b>	<b>550</b>	<b>673</b>
Total Loans	-	-	51	111
Other Liabilities	3	2	0	0
<b>Total Liabilities</b>	<b>379</b>	<b>446</b>	<b>602</b>	<b>783</b>
<b>APPLICATION OF FUNDS</b>				
<b>Net Block</b>	<b>146</b>	<b>118</b>	<b>125</b>	<b>116</b>
Capital Work-in-Progress	7	17	7	0
Investments	-	6	8	10
Long Term Loans & Advances	15	21	17	34
<b>Current Assets</b>	<b>393</b>	<b>570</b>	<b>824</b>	<b>1,094</b>
Inventories	99	137	170	198
Sundry Debtors	231	350	471	566
Cash	35	44	176	287
Loans & Advances	1	1	1	1
Investments & Others	27	37	6	41
<b>Current liabilities</b>	<b>182</b>	<b>285</b>	<b>379</b>	<b>472</b>
<b>Net Current Assets</b>	<b>211</b>	<b>285</b>	<b>445</b>	<b>622</b>
Other Non Current Asset	-	-	-	-
<b>Total Assets</b>	<b>379</b>	<b>446</b>	<b>602</b>	<b>783</b>

Source: Company, Angel Research

### Cash Flow

Y/E March (₹cr)	FY17	FY18	FY19E	FY20E
Profit before tax	75	128	194	223
Depreciation	39	43	54	51
Change in Working Capital	(35)	81	(0)	(30)
Interest / Dividend (Net)	1	1	5	11
Direct taxes paid	26	44	67	77
Others	(9)	(245)	(139)	(88)
<b>Cash Flow from Operations</b>	<b>97</b>	<b>51</b>	<b>181</b>	<b>244</b>
(Inc.)/ Dec. in Fixed Assets	(23)	(30)	(49)	(39)
(Inc.)/ Dec. in Investments	1	3	(2)	(2)
<b>Cash Flow from Investing</b>	<b>(23)</b>	<b>(27)</b>	<b>(51)</b>	<b>(41)</b>
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	-29	-	51	60
Others	(11)	(15)	(49)	(151)
<b>Cash Flow from Financing</b>	<b>(40)</b>	<b>(15)</b>	<b>2</b>	<b>(92)</b>
Inc./(Dec.) in Cash	35	9	132	111
<b>Opening Cash balances</b>	<b>0</b>	<b>35</b>	<b>44</b>	<b>176</b>
<b>Closing Cash balances</b>	<b>35</b>	<b>44</b>	<b>176</b>	<b>287</b>

Source: Company, Angel Research

### Key Ratio

Y/E March	FY17	FY18	FY19E	FY20E
P/E (on FDEPS)	34	20	13	11
P/CEPS	15	10	7	6
P/BV	4	4	3	2
EV/Sales	1	1	1	1
EV/EBITDA	14	10	6	5
EV / Total Assets	3	2	2	1
<b>Per Share Data (Rs)</b>				
EPS (Basic)	33	56	84	97
EPS (fully diluted)	33	56	84	97
Cash EPS	75	113	163	180
DPS	8	14	14	14
Book Value	249	294	364	445
<b>Returns (%)</b>				
ROCE	20	28	32	29
Angel ROIC (Pre-tax)	22	33	47	47
ROE	13	19	23	22
<b>Turnover ratios (x)</b>				
Inventory / Sales (days)	31	33	30	28
Receivables (days)	72	84	83	80
Payables (days)	53	62	60	60
Working capital cycle (ex-cash) (days)	50	55	53	48

Source: Company, Angel Research

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<b>Disclosure of Interest Statement</b>	<b>Automotive Axles</b>
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