October 17, 2024

Aditya Birla Capital Ltd.

Reco. Price: Rs. 222 **Target: Rs. 260 / 300**

Technical Outlook

ABCAPITAL has demonstrated remarkable resilience and outperformance in recent months. The stock's consistent formation of higher highs and higher lows across all timeframes suggests a sustained uptrend. Historically, ABCAPITAL has held its 50-day moving average, and this trend appears to continue. The stock's upward trajectory since June 2022 has been well-contained within a channel, indicating strong demand at higher levels. The base of this uptrend, located at the 50-day moving average (currently at 200), reinforces the robust price structure. A positive technical indicator is the Class B divergence observed in the 14-period Relative Strength Index (RSI) on the weekly timeframe. This suggests that the stock's upward momentum may be gaining strength. Based on these factors, ABCAPITAL is expected to continue its upward movement, potentially reaching 260 in the short-to-medium term. This level coincides with the upper boundary of the channel. In the longer term, the stock may target 300, a level aligned with the projected 123.6% extended retracement of the decline since September 2017.

Fundamental Outlook

- Aditya Birla Capital Ltd. is a diversified financial services group that operates in various businesses including non-banking finance, housing finance, life insurance, standalone health insurance, asset management, stock and securities broking, wealth services and asset reconstruction. AB capital has been prioritizing creating seamless, technology-driven loan processes by utilizing its group-level ecosystem.
- Post change in the management, AB Capital has reconstruct its business offering and initiated a tech transformation journey to leverage its ~35 million customer base and ~200k channel partners at the group level. In the lending business, company has set a target to double its FY23 AUM in Aditya Birla Finance and Aditya Birla Housing by FY26E.
- During 1QFY25, Aditya Birla Finance has registered an AUM growth of 25% YoY at Rs 1,07,306 crore and Housing Finance has registered an AUM growth of 33% YoY at Rs 20,399 crore. Aditya Birla Finance's loan growth strategy focuses on MSME sector and put more emphasis on secured business. Company's housing finance business is experiencing strong momentum in disbursals and loan book growth, leading to an increase in market share with a steady enhancement in return metrics given the strong traction in real estate sector.
- Given the buoyancy in the stock market, company's AMC business is witnessing sustained growth. The company has been taking proactive initiatives to increase the traction in SIPs. Company's life insurance business which is a JV between the Aditya Birla Group and Sun Life Financial Inc., Canada, is witnessing steady growth.
- For 1QFY25, Individual First Year Premium grew by 19% YoY to Rs 644 crore. Group new business premium grew by 41% YoY to Rs 1,498 crore with Net Value of New Business margin stood at 6.50%. AB Capital's health insurance business name Aditya Birla Health Insurance Ltd. is one of the fastest-growing standalone Health Insurance players in FY24. It is driven by its ‘Health First’ business model, backed by a strong brand and differentiated product offerings.

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Automotive Axles Ltd. Reco. Price: Rs. 1858 Target: Rs. 2200 / 2500

Technical Outlook

A recent 30% correction from its all-time high has driven the Stock to oversold levels, presenting a potential buying opportunity for investors. The stock has found support at the 1770-1800 range, a level that has proven crucial multiple times in both 2022 and 2024. A notable increase in trading volume above the 20-day average indicates growing interest. Additionally, the share price has retraced to its 38.2% Fibonacci retracement level of 1790, suggesting a possible reversal from the lows of the Covid-19 pandemic. Technical indicators, such as the weekly and daily momentum oscillators, are nearing oversold readings of 41 and 39, respectively. This suggests that the stock may be due for a technical rebound from its current support level. Given these factors, investors may find it attractive to consider the stock for a potential short-to-medium term gain. A target of 2200, the swing high of July 2024, could be a realistic expectation. In the longer term, the stock may even reach 2500, a target based on the swing high of November 2023.

Fundamental Outlook

- Automotive Axles Ltd. is a joint venture of Kalyani Group and Meritor Inc., USA. Company is currently the largest independent manufacturer of rear drive axle assemblies for CVs (primarily M&HCVs) in India.
- Currently, company's 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 buses 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.
- With the launch of new products, Automotive Axles 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. Further, increased government spending on public transport, Voluntary Vehicle Scrappage policy and increased Infrastructure spends by the government are positive triggers for the industry. The company has sufficient spare capacity to meet the increasing demand for the next few years.
- With the help of Cummins' (and Merritor) superior technical know-how, the company is focused on developing industry-first products to have a competitive edge. The aim is to increase off-highway, defense & aftermarket business, and to improve market share in the brakes. Company is also focusing on upgrading existing products that are lightweight, fuel efficient, have higher life durability and meet the demand of regional players. Company has continuous focus on working capital improvement and inventory optimisation and continuous focus on revenue improvement, new product development, operational excellence & cost optimisation as part of Mission 25 Strategy.

For detail report on these recommended companies,

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