

## Strong Financials; Robust Long-term Potential in the MHCV Segment

**Est. Vs. Actual for Q2FY25:** Revenue – **MISS**; EBITDA – **MISS**; PAT– **MISS**

### Change in Estimates post Q2FY25

**FY25E/FY26E:** Revenue: -11.4%/-10.7%; EBITDA: -13.1%/-10.9; PAT: -11.4%/-11%

### Recommendation Rationale

- Industry Outlook:** Automotive Axles' topline dropped 15.4% YoY in Q2FY25, mainly due to a 12.9% dip in MHCV industry volumes (with anchor customer Ashok Leyland experiencing a notable 21.6% pullback) and softer steel prices which was partially offset by higher exports, expansion in aftermarket sales, and the fulfilment of backlog orders. Management expects industry volumes to remain steady for FY25 (with H2 projected to be similar or slightly better than H1) and anticipates a gradual recovery in FY26.
- New product launches:** With the introduction of new axle products for goods carriers (MS185, MS177) and buses, the company aims to increase its business share with Ashok Leyland to over 65% (up from the current 63%). It plans to launch axles for 9-meter buses by Q3/Q4FY25 (currently, only 12-meter bus axles are available for Ashok Leyland with a 100% share of business), which will help broaden its product portfolio in growth segments.

**Company Outlook & Guidance:** With the launch of new products, the company aims to enhance its product portfolio, expanding its coverage to 70-80% of the CV segment from the current 50-60%. This expansion is expected to lead to higher revenues and a gradual improvement in EBITDA margins, driven by more efficient utilisation of resources.

**Current Valuation:** 17x FY26 EPS (earlier 19x FY26EPS)

**Current TP:** Rs 1,981/ share (earlier Rs 2,210/share)

**Recommendation:** We maintain a **BUY** rating with a 10% upside potential.

### Financial Performance

Automotive Axles reported weaker-than-expected Revenue and EBITDA compared to our estimates, while PAT was largely in line. Revenue declined by 15% YoY but increased by 5% QoQ, missing our estimates by 6%. The YoY decline was primarily due to a ~13% decrease in production volumes of MHCV trucks, while the MHCV Bus segment saw a ~4% YoY volume growth (where Autoaxle has minimal product presence) during the quarter. EBITDA came in at Rs 51 Cr, down 23% YoY but up 5% QoQ, missing estimates by 4%, primarily due to negative operating leverage. PAT was reported at Rs 36 Cr, a decline of 20% YoY but an increase of 6% QoQ, missing estimates by a marginal 2%, largely following the EBITDA performance.

### Valuation & Recommendation

The near-term outlook for the CV industry remains cautious; however, increased government infrastructure spending is expected to benefit the sector in the long term. As a proxy to the MHCV industry, we see limited downside risk for AutoAxles at the current market price. Therefore, we maintain a BUY rating at 17x FY27 EPS (earlier 19x FY26 EPS) with a target price of Rs 1,981 per share, implying a 10% upside from CMP.

### Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	494.7	0%	-15%	526.0	-6%
EBITDA	51.1	5%	-23%	53.1	-4%
EBITDA Margin	10.3%	41	-97	10.1%	23
Net Profit	36.0	6%	-20%	36.5	-2%
EPS (Rs)	23.8	6%	-20%	24.2	-2%

Source: Company, Axis Securities Research

(CMP as of 4<sup>th</sup> November 2024)

CMP (Rs)	1,803
Upside /Downside (%)	10%
High/Low (Rs)	2466/1741
Market cap (Cr)	2,725
Avg. daily vol. (6m) Shrs.	20,348
No. of shares (Cr)	1.51

### Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	71.0	71.0	71.0
FII's	0.5	0.6	0.6
MFs/UTI	11.7	11.5	12.6
Banks/FIs	0.0	0.0	0.0
Others	16.7	16.9	15.7

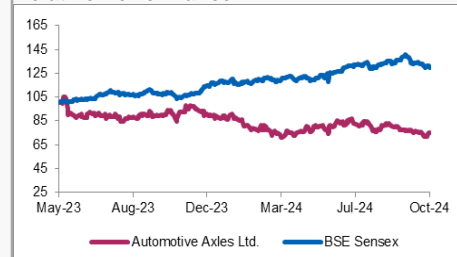
### Financial & Valuations

Y/E Mar	FY25E	FY26E	FY27E
Net Sales	2,053	2,204	2,341
EBITDA	217	242	258
Net Profit	144	157	176
EPS (Rs.)	96.2	104.0	116.6
PER (x)	18.8	17.4	15.5
EV/ EBITDA	11.8	10.3	9.3
P/BV	2.8	2.5	2.3
ROE (%)	15.2	14.9	15.2

### Change in Estimates (%)

Y/E Mar	FY25E	FY26E	FY27E
Sales	-11.4%	-10.7%	-9.7%
EBITDA	-13.1%	-10.9%	-9.6%
PAT	-11.4%	-11.0%	-5.5%

### Relative Performance



Source: AceEquity, AxisSecurities Research.

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## Outlook:

The CV industry has experienced higher tonnage growth over the last two years, despite production volumes being lower than the peaks of FY19. Looking ahead, we anticipate a moderate growth rate for the goods carrier segment in FY25E due to the high base of FY24, while the passenger carrier CV segment is expected to achieve double-digit growth, given the lower base. Supported by new product launches and cost control efforts, we forecast an EBITDA CAGR of 2% for FY24-27E (at similar commodity levels).

## Key Concall Highlights

- **Capex:** The board has approved a capital expenditure of ₹70 Cr for the current calendar year. Over the next 2-3 years, the company plans to invest between ₹200 Cr and ₹300 Cr. This investment will primarily focus on upscaling operations, launching new products, alleviating production bottlenecks, and implementing technologies to enhance efficiency and performance.
- **EBITDA Margin:** In Q2, margins were impacted by higher employee costs and fixed costs, which weighed on profitability due to reduced production levels, resulting in negative operating leverage. Management is targeting a long-term EBITDA margin of 10-12%, with plans to drive future margin improvement through key initiatives: a) increasing content per vehicle among OEMs, b) easing production bottlenecks, and c) prioritizing cost control and value engineering. We conservatively estimate EBITDA to grow at a 2% CAGR over FY24-27E, assuming commodity prices remain stable.
- The company's **RoCE** was down to 26.9% for 1HFY25 compared to 32.0% in FY24, impacted by lower operating profits.

## 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		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenues	2,053	2,204	2,341	2,317	2,469	2592	-11.4%	-10.7%	-9.7%
EBITDA	217	242	258	250	272	285	-13.1%	-10.9%	-9.6%
PAT	144	157	176	163	176	186	-11.4%	-11.0%	-5.5%

Source: Company, Axis Securities Research

**Q2FY25 Results Review**

Consolidated (Rs Cr)	Q2FY24	Q1FY25	Axis Estimates	Q2FY25	% Change (YoY)	% Change (QoQ)	% Variance
<b>Sales</b>	<b>584.4</b>	<b>492.5</b>	<b>526.0</b>	<b>494.7</b>	<b>-15%</b>	<b>0%</b>	<b>-6%</b>
<b>Expenditure</b>							
Net Raw Material	418.1	350.4	374.5	349.1	-16%	0%	-7%
Personnel	33.1	33.1	35.2	34.3	4%	4%	-3%
Other Exp	67.2	60.1	63.1	60.2	-10%	0%	-5%
<b>Total Expenditure</b>	<b>518.4</b>	<b>443.6</b>	<b>472.8</b>	<b>443.6</b>	<b>-14%</b>	<b>0%</b>	<b>-6%</b>
<b>EBIDTA</b>	<b>66.0</b>	<b>48.8</b>	<b>53.1</b>	<b>51.1</b>	<b>-23%</b>	<b>5%</b>	<b>-4%</b>
<b>EBITDA Margin</b>	<b>11.3%</b>	<b>9.9%</b>	<b>10.1%</b>	<b>10.3%</b>	<b>-97</b>	<b>41</b>	<b>23</b>
Non-operating Income	3.8	6.4	6.0	6.1	59%	-5%	2%
Interest	0.6	0.8	0.6	0.8	48%	-2%	32%
Depreciation	8.9	8.1	8.8	7.9	-12%	-2%	-10%
Exceptional Item	0.0	0.0	0.0	0.0	0%	0%	0%
<b>PBT</b>	<b>60.4</b>	<b>46.3</b>	<b>49.7</b>	<b>48.5</b>	<b>-20%</b>	<b>5%</b>	<b>-3%</b>
Tax	15.3	12.3	13.2	12.5	-18%	2%	-5%
<b>PAT</b>	<b>45.1</b>	<b>34.1</b>	<b>36.5</b>	<b>36.0</b>	<b>-20%</b>	<b>6%</b>	<b>-2%</b>
Oth. Comprehensive Income (net of taxes)	-0.2	-0.4	-0.1	-0.4	Na	Na	Na
Total Comprehensive Income	44.8	33.7	36.4	35.6	-21%	6%	-2%
<b>EPS (Rs.)</b>	<b>29.8</b>	<b>22.5</b>	<b>24.2</b>	<b>23.8</b>	<b>-20%</b>	<b>6%</b>	<b>-2%</b>
Gross profit margin (%)	28.47%	28.85%	28.80%	29.43%	97	59	63
Personnel cost as a % of sales	5.7%	6.7%	6.7%	6.9%	127	21	23
Other exp as a % of sales	11.5%	12.2%	12.0%	12.2%	67	-3	17
Net RM cost as a % of sales	71.5%	71.2%	71.2%	70.6%	-97	-59	-63
Net profit margin %	7.72%	6.91%	6.95%	7.27%	-44	36	32

Source: Company, Axis Securities research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Net sales</b>	<b>2,229</b>	<b>2,053</b>	<b>2,204</b>	<b>2,341</b>
Other operating income	0	0	0	0
<b>Total income</b>	<b>2,229</b>	<b>2,053</b>	<b>2,204</b>	<b>2,341</b>
Cost of goods sold	1,904	1,762	1,882	2,000
Contribution (%)	14.6%	14.2%	14.6%	14.6%
Advt/Sales/Distrn O/H	78.9	74.5	79.3	84.3
<b>Operating Profit</b>	<b>246</b>	<b>217</b>	<b>242</b>	<b>258</b>
Other income	16	20	18	25
<b>PBIDT</b>	<b>262</b>	<b>238</b>	<b>261</b>	<b>282</b>
Depreciation	36	39	47	43
Interest & Fin Chg.	3	3	2	1
E/o income / (Expense)	0	0	0	0
<b>Pre-tax profit</b>	<b>223</b>	<b>196</b>	<b>212</b>	<b>238</b>
Tax provision	57	51	55	62
(-) Minority Interests	0	0	0	0
Associates	0	0	0	0
Other Comprehensive Income	-1.2	-1.0	-0.4	-0.4
<b>Adjusted PAT</b>	<b>165</b>	<b>144</b>	<b>157</b>	<b>176</b>
<b>Reported PAT</b>	<b>165</b>	<b>144</b>	<b>157</b>	<b>176</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Total assets</b>	<b>903</b>	<b>996</b>	<b>1,089</b>	<b>1,201</b>
Net Block	200.8	198.1	196.0	197.7
CWIP	5.7	9.7	14.7	19.7
Investments	16.3	16.3	16.3	16.3
Wkg. cap. (excl cash)	597	595	618	639
Cash / Bank balance	83.3	176.8	243.9	327.7
Misc. Assets	0.0	0.0	0.0	0.0
<b>Capital employed</b>	<b>903</b>	<b>996</b>	<b>1,089</b>	<b>1,201</b>
Equity capital	15.1	15.1	15.1	15.1
Reserves	861	958	1,055	1,170
Pref. Share Capital	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.0
Borrowings	27	23	19	15
DefTax Liabilities	0.0	0.0	0.0	0.0

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Sources</b>	<b>159</b>	<b>132</b>	<b>140</b>	<b>155</b>
Cash profit	205	187	206	221
(-) Dividends	48	48	60	60
Retained earnings	157	138	145	160
Issue of equity	0.0	0.0	0.0	0.0
Change in Oth. Reserves	0.0	0.0	0.0	0.0
Borrowings	(5.1)	(4.0)	(4.0)	(4.0)
Others	7.3	(2.7)	(1.6)	(1.1)
<b>Applications</b>	<b>159</b>	<b>132</b>	<b>140</b>	<b>155</b>
Capital expenditure	27.3	40.0	50.0	50.0
Investments	0.2	0.0	0.0	0.0
Net current assets	94.8	(1.8)	22.7	21.2
Change in cash	36.8	93.5	67.1	83.9

Source: Company, Axis Securities

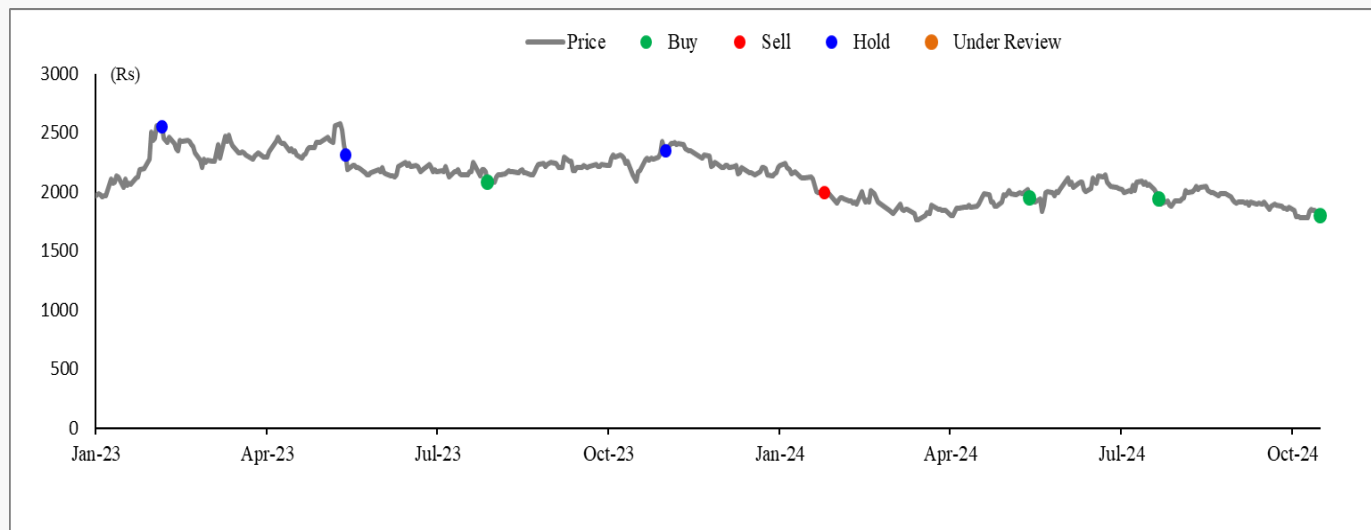
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Sales growth %	-4.1	-7.9	7.3	6.2
OPM	11.0	10.6	11.0	11.0
Oper. profit growth	-4.3	-11.8	11.6	6.2
COGS / Net sales	85.4	85.8	85.4	85.4
Overheads/Net sales	3.5	3.6	3.6	3.6
Depreciation / G. block	7.6	7.5	8.4	7.2
Effective interest rate	10.6	13.8	10.5	10.0
Net kg.cap / Net sales	0.23	0.27	0.26	0.25
Net sales / Gr block (x)	4.6	4.0	3.9	3.9
RoCE	26.8	21.1	20.6	21.0
Debt/equity (x)	0.02	0.02	0.01	0.01
Effective tax rate	25.5	25.9	25.9	25.9
RoE	19.6	15.2	14.9	15.2
Payout ratio (Div/NP)	29.3	33.5	38.6	34.4
<b>EPS (Rs.)</b>	<b>110.0</b>	<b>96.2</b>	<b>104.0</b>	<b>116.6</b>
EPS Growth %	2.5	(12.5)	8.1	12.2
CEPS (Rs.)	133.2	121.1	134.9	145.0
DPS (Rs.)	32.0	32.0	40.0	40.0

Source: Company, Axis Securities Research

## Automotive Axles Price Chart and Recommendation History



Date	Reco	TP	Research
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
08-Aug-24	BUY	2,210	Result Update
05-Nov-24	BUY	1,981	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
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UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.