

Automotive Axles

Performance Highlights

Y/E Sept. (₹ cr)	1QSY11	1QSY10	% chg (yoy)	Angel est.	% diff
Net sales	179.5	136.3	31.7	175.0	2.6
Operating profit	22.2	16.2	37.2	21.0	5.9
EBITDA margin (%)	12.4	11.9	50bp	12.0	39bp
Reported PAT	9.8	6.4	51.6	9.9	(1.5)

Source: Company, Angel Research

Automotive Axles (AAL) posted a good set of results for 1QSY2011, with the top line and bottom line largely in line with our estimates. We expect positive growth in the commercial vehicle (CV) segment to help the company sustain its performance going ahead. **We maintain Buy on the stock.**

Net sales up 31.7%; net profit increases 51.6%: AAL registered 31.7% yoy and 7.5% qoq growth in net sales to ₹179.5cr (₹136.3cr), against our estimates of ₹175cr. While domestic sales grew by 29.9% yoy, export revenue increased by 70.9% yoy during 1QSY2011. The company's top line continues to show healthy growth, following the revival in CV volumes. The M&HCV segment, which contributes ~95% to AAL's revenue, however, posted modest ~19% yoy growth during the quarter. EBITDA margin came in marginally ahead of our estimates at 12.4%, up 50bp yoy, due to a 144bp yoy and 35bp yoy decrease in raw-material and staff cost, respectively. The 130bp increase in other expenditure, however, arrested further margin expansion. As a result, operating profit posted strong 37.2% yoy growth to ₹22.2cr (₹16.2cr). Net profit during the quarter stood at ₹9.8cr (₹6.4cr), against our estimates of ₹9.9cr, posting 51.6% yoy growth.

Outlook and valuation: During SY2010–12E, we expect AAL to report a ~10% CAGR in its top line (largely on volume growth) and bottom line. At ₹391, AAL is trading at 12x SY2011E and 11.2x SY2012E earnings of ₹32.6 and ₹35, respectively, lower than its historical average of 14x. We maintain Buy on the stock with a revised Target Price of ₹490 (₹525), at which level the stock would trade at 14x SY2012E earnings (in line with its historical valuation).

Key financials

Y/E Sept. (₹ cr)	SY2009	SY2010E	SY2011E	SY2012E
Net sales	266.3	669.7	762.6	804.8
% chg	(64.3)	151.5	13.9	5.5
Net profit	9.7	44.1	49.3	52.9
% chg	(82.7)	356.3	11.9	7.3
OPM (%)	12.0	13.2	13.2	13.2
EPS (₹)	6.4	29.2	32.6	35.0
P/E (x)	61.1	13.4	12.0	11.2
P/BV (x)	3.4	2.8	2.5	2.0
RoE (%)	5.6	23.1	22.1	19.8
RoCE (%)	5.5	25.5	25.4	24.0
EV/Sales (x)	2.4	1.0	0.8	0.7
EV/EBITDA (x)	19.6	7.4	6.1	5.5

Source: Company, Angel Research

BUY

CMP	₹391
Target Price	₹490

Investment Period	12 Months
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	590
Beta	0.7
52 Week High / Low	559/330
Avg. Daily Volume	4,849
Face Value (₹)	10
BSE Sensex	19,008
Nifty	5,697
Reuters Code	ATOA.BO
Bloomberg Code	ATXL@IN

Shareholding Pattern (%)	
Promoters	71.0
MF / Banks / Indian Fls	20.7
FII / NRIs / OCBs	0.5
Indian Public / Others	7.8

Abs. (%)	3m	1yr	3yr
Sensex	(6.2)	11.5	8.0
Automotive Axles	(23.4)	2.7	(22.1)

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Exhibit 1: Quarterly performance

Y/E Sept. (₹ cr)	1QSY11	1QSY10	% chg	SY10	SY09	% chg
Net sales	179.5	136.3	31.7	669.7	267.2	150.6
Consumption of RM	127.4	98.7	29.0	473.5	181.3	161.2
(% of Sales)	71.0	72.4		70.7	67.8	
Staff costs	11.1	8.9	24.6	40.1	24.2	65.6
(% of sales)	6.2	6.5		6.0	9.1	
Other expenses	18.8	12.5	50.3	68.0	28.9	135.4
(% of sales)	10.5	9.2		10.1	10.8	
Total expenditure	157.2	120.1	30.9	581.6	234.4	148.2
Operating profit	22.2	16.2	37.2	88.1	32.9	168.1
OPM (%)	12.4	11.9		13.2	12.3	
Interest	1.0	0.8	20.4	3.6	4.7	(24.2)
Depreciation	5.2	5.0	5.2	21.0	18.5	13.6
Other income	0.1	0.9	(91.1)	2.3	3.2	(29.2)
PBT (excl. extr. items)	16.1	11.3	42.1	65.9	12.9	-
Extr. Items	-	-		-	0.3	
PBT (incl. extr. items)	16.1	11.3	42.1	65.9	12.7	420.0
(% of Sales)	9.0	8.3		9.8	4.7	
Provision for Taxation	6.4	4.9	29.8	21.8	3.0	624.7
(% of PBT)	39.4	43.2		33.1	23.8	
Reported PAT	9.8	6.4	51.6	44.1	9.7	356.3
PATM(%)	5.4	4.7		6.6	3.6	
Equity capital (cr)	15.1	15.1		15.1	15.1	
EPS (₹)	6.5	4.3	51.6	29.2	6.4	356.3

Source: Company, Angel Research

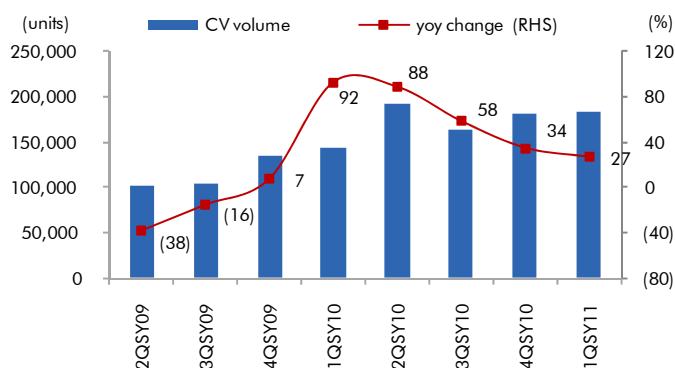
Exhibit 2: Quarterly segmental performance

Y/E Sept. (₹ cr)	1QSY11	1QSY10	% chg	SY10	SY09	% chg
Net sales						
Domestic	169.6	130.5	29.9	642.3	248.4	158.6
Export	9.9	5.8	70.9	27.4	18.9	45.4
Total	179.5	136.3	31.7	669.7	267.3	150.6
EBIT						
Domestic	19.2	12.6	52.8	73.7	18.7	294.8
Export	0.8	0.5	57.2	2.4	2.3	5.2
Total	20.0	13.1	53.0	76.1	20.9	263.5
EBIT (%)						
Domestic	11.3	9.6		11.5	7.5	
Export	8.0	8.7		8.7	12.0	
Total	11.1	9.6		11.4	7.8	

Source: Company, Angel Research

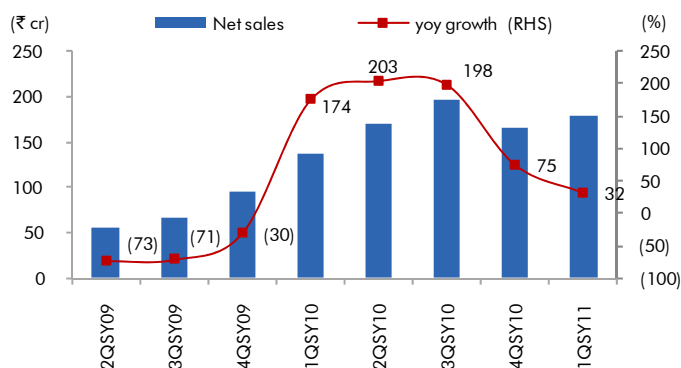
Net sales up 31.7% yoy, in line with estimates: AAL registered 31.7% yoy growth in net sales to ₹179.5cr (₹136.3cr), which was largely in line with our estimates of ₹175cr. On a sequential basis, the top line grew by 7.5%. Domestic sales grew by 29.9% yoy, while export revenue increased by 70.9% yoy during 1QSY2011. The M&HCV segment, which contributes ~95% to AAL's revenue, however, posted modest ~19% yoy growth during the quarter.

Exhibit 3: Reviving CV sales...



Source: SIAM, Company, Angel Research

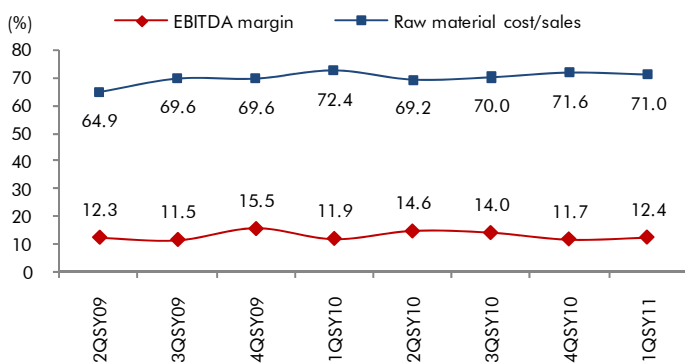
Exhibit 4: ...supporting net sales growth



Source: Company, Angel Research

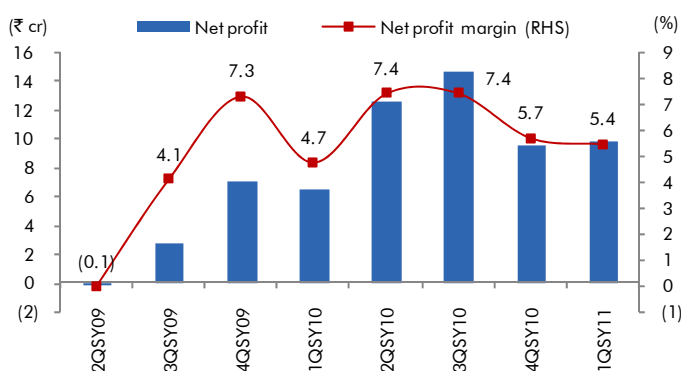
EBITDA margins at 12.4%, up 50bp yoy: In 1QSY2011, AAL's performance on the operating front came in slightly ahead of our expectation. The company reported a 50bp yoy expansion in EBITDA margin to 12.4% (11.9%), against our estimates of 12%. The improvement in margins was on account of a 144bp yoy and 35bp yoy decrease in raw-material and staff cost, respectively. Raw-material cost accounted for 71% (72.4%) of sales during the quarter. The 130bp increase in other expenditure, however, arrested further margin expansion. Overall, AAL's operating profit grew by 37.2% yoy to ₹22.2cr in 1QSY2011.

Exhibit 5: EBITDA margin up 50bp yoy to 12.4%



Source: Company, Angel Research

Exhibit 6: Net profit up 51.6% yoy



Source: Company, Angel Research

Net profit at ₹9.8cr, up 51.6% yoy: Net profit during the quarter stood at ₹9.8cr (₹6.4cr), which came in line with our estimates of ₹9.9cr. Lower tax outgo aided bottom-line growth to a certain extent. However, the increase in interest cost marginally affected the bottom-line performance.

Investment arguments

- M&HCV segment to drive future growth:** AAL derives its revenue from the CV segment. Over the last few quarters, following the recovery in the overall economic and industrial activity, M&HCV volumes have also been showing good recovery. Overall, we estimate the domestic heavy M&HCV segment to witness a ~13% CAGR over SY2010–12E. Thus, AAL is expected to be one of the beneficiaries on account of the anticipated higher offtake by the M&HCV segment in the next couple of years.
- Increasing utilisation levels support margin expansion:** Overall increased volumes will support higher utilisation levels of the existing under-utilised installed capacities (capacity levels were down by 25% in SY2009). Improved utilisation would also support higher operating leverage. Therefore, higher volume growth and margin expansion pose upside risks to our earnings estimates.

Outlook and valuation

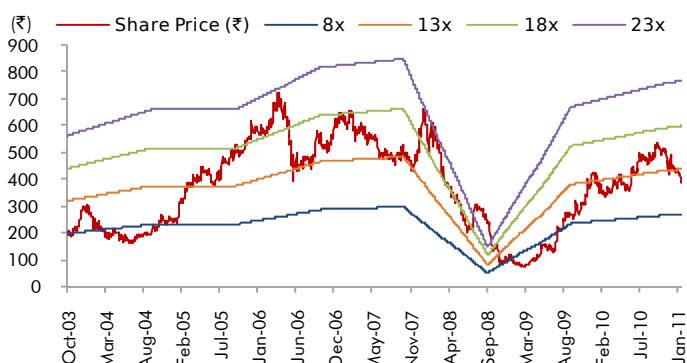
During SY2010–12E, we expect AAL to report a ~10% CAGR in its top line (largely on volume growth) and bottom line. At ₹391, AAL is trading at 12x SY2011E and 11.2x SY2012E earnings of ₹32.6 and ₹35, respectively, lower than its historical average of 14x. **We maintain Buy on the stock with a revised Target Price of ₹490 (₹525), at which level the stock would trade at 14x SY2012E earnings (in line with its historical valuation).**

Key risk: Lower-than-expected growth in the CV segment (specifically the M&HCV segment) due to lower IIP poses a downside risk to our growth estimates for AAL.

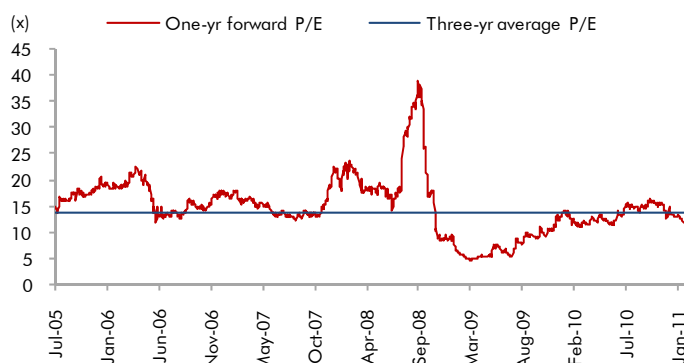
Exhibit 7: Key assumptions

Y/E Sept.	SY2008	SY2009	SY2010E	SY2011E	SY2012E
Complete axles (units)	108,449	39,225	99,760	108,360	113,520
yoy change (%)	3.5	(63.8)	154.3	8.6	4.8
Brake shoe (units)	378,573	435,965	597,272	686,863	741,812
yoy change (%)	-	15.2	37.0	15.0	8.0
Axle housing (units)	33,320	8,548	21,302	23,138	24,240
yoy change (%)	(0.2)	(74.3)	149.2	8.6	4.8

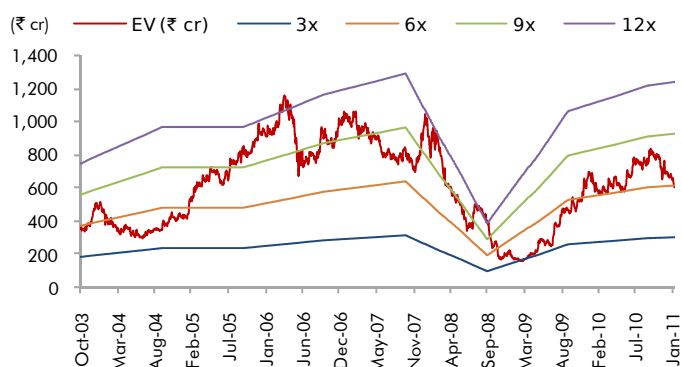
Source: Company, Angel Research

Exhibit 8: One-year forward P/E band


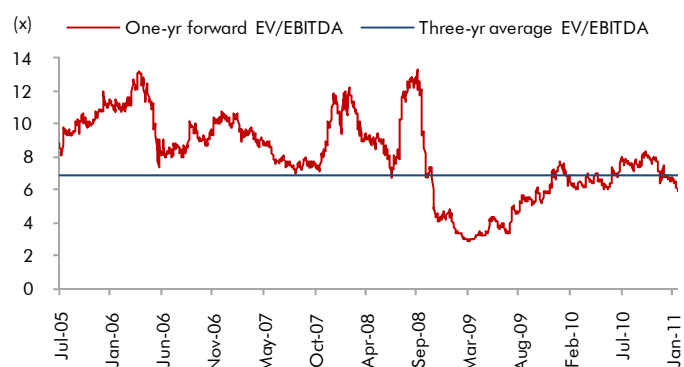
Source: Company, Bloomberg, Angel Research

Exhibit 9: One-year forward P/E chart


Source: Company, Bloomberg, Angel Research

Exhibit 10: One-year forward EV/EBITDA band


Source: Company, Bloomberg, Angel Research

Exhibit 11: One-year forward EV/EBITDA chart


Source: Company, Bloomberg, Angel Research

Exhibit 12: Auto Ancillary – Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY10-12E EPS CAGR (%)
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	
Amara Raja	Buy	176	251	42.5	10.6	8.1	6.1	4.7	23.3	24.6	5.7
Automotive Axle[^]	Buy	391	490	25.4	12.0	11.2	6.1	5.5	22.1	19.8	9.6
Bharat Forge* &	Accumulate	349	Under Review	-	28.5	17.3	13.9	10.1	16.6	21.7	-
Bosch India [#]	Accumulate	6,247	6,766	8.3	22.9	19.8	14.0	11.7	23.7	22.7	37.0
Exide Industries	Buy	136	157	15.4	18.6	16.1	11.6	8.8	23.4	24.0	15.7
FAG Bearings [#]	Buy	820	1,035	26.2	11.6	10.7	5.9	5.1	22.9	20.4	39.5
Motherson Sumi*	Accumulate	170	195	14.6	19.5	14.6	8.2	7.0	27.3	32.2	36.7
Subros	Buy	42	57	36.4	10.1	7.4	4.4	3.8	11.3	13.9	10.0

Source: Company, Angel Research; Note: * Consolidated results; # December year end; ^ September year end; & FY2011E and FY2012E EPS adjusted for FCCB interest after tax

Profit and Loss Statement

Y/E Sept. (₹ cr)	SY07	SY08	SY09	SY10	SY11E	SY12E
Net Sales	607.2	746.0	266.3	669.7	762.6	804.8
% chg	32.7	22.9	(64.3)	151.5	13.9	5.5
Total Expenditure	510.8	639.1	234.4	581.6	661.6	698.4
Net Raw Materials	417.8	522.0	181.3	473.5	541.4	571.4
Other Mfg costs	30.6	39.5	29.0	-	-	-
Personnel	15.1	17.7	6.5	40.1	43.8	45.1
Other	47.3	59.9	17.6	68.0	76.3	81.9
EBITDA	96.4	106.9	31.9	88.1	100.9	106.4
% chg	20.3	10.9	(70.1)	176.1	14.5	5.4
(% of Net Sales)	15.9	14.3	12.0	13.2	13.2	13.2
Depreciation	17.1	20.9	18.5	21.0	23.7	25.3
EBIT	79.3	86.0	13.4	67.1	77.3	81.1
% chg	19.4	8.4	(84.4)	400.0	15.1	5.0
(% of Net Sales)	13.1	11.5	5.0	10.0	10.1	10.1
Interest & other Charges	7.7	6.5	4.9	3.6	4.9	4.1
Other Income	10.3	5.9	4.2	2.3	2.5	2.7
% chg	142.6	(42.3)	(29.6)	(45.0)	9.0	9.0
PBT	81.9	85.4	12.7	65.9	74.9	79.8
% chg	26.3	4.3	(85.2)	420.0	13.7	6.5
Extr. Exp./(Inc.)	-	0.1	-	-	-	-
PBT (reported)	81.9	85.3	12.7	65.9	74.9	79.8
Tax	28.3	29.7	3.0	21.8	25.6	26.9
(% of PBT)	34.5	34.8	23.7	33.1	34.2	33.7
PAT (reported)	53.6	55.7	9.7	44.1	49.3	52.9
PAT after MI (reported)	53.6	55.7	9.7	44.1	49.3	52.9
ADJ. PAT	53.6	55.8	9.7	44.1	49.3	52.9
% chg	23.7	4.0	(82.7)	356.3	11.9	7.3
(% of Net Sales)	8.8	7.5	3.6	6.6	6.5	6.6
Basic EPS (₹)	35.5	36.9	6.4	29.2	32.6	35.0
Fully Diluted EPS (₹)	35.5	36.9	6.4	29.2	32.6	35.0
% chg	23.7	4.0	(82.7)	356.3	11.9	7.3

Balance Sheet

Y/E Sept. (₹ cr)	SY07	SY08	SY09	SY10E	SY11E	SY12E
SOURCES OF FUNDS						
Equity Share Capital	15.1	15.1	15.1	15.1	15.1	15.1
Reserves & Surplus	110.5	154.8	159.6	192.5	224.2	279.5
Shareholders' Funds	125.6	169.9	174.7	207.6	239.3	294.6
Total Loans	101.9	72.1	45.4	70.7	60.7	50.7
Deferred Tax Liability	13.0	14.0	14.2	14.2	14.9	15.9
Total Liabilities	240.5	256.0	234.3	292.4	314.9	361.2
APPLICATION OF FUNDS						
Gross Block	233.2	273.5	275.6	292.2	328.7	351.6
Less: Acc. Depreciation	96.0	112.8	130.5	151.5	175.2	199.1
Net Block	137.2	160.7	145.1	140.7	153.5	152.5
Capital Work-in-Progress	14.4	8.0	7.1	4.4	6.6	7.0
Investments	-	-	-	-	-	-
Current Assets	268.6	284.0	145.6	234.5	267.3	312.4
Cash	11.5	19.2	8.7	9.0	30.8	58.1
Loans & Advances	89.8	112.2	9.8	11.5	38.1	48.5
Other	167.3	152.6	127.1	214.0	198.4	205.7
Current liabilities	179.7	196.7	63.5	87.1	112.4	110.8
Net Current Assets	88.9	87.3	82.1	147.4	154.8	201.6
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	240.5	256.0	234.3	292.4	314.9	361.2

Cash Flow Statement

Y/E Sept. (₹ cr)	SY07	SY08	SY09	SY10E	SY11E	SY12E
Profit before tax	81.9	85.3	12.7	65.9	74.9	79.8
Depreciation	17.1	20.9	18.5	21.0	23.7	25.3
Change in Working Capital	34.8	(3.3)	11.5	109.1	(77.8)	(93.2)
Less: Other income	73.6	(24.7)	4.8	161.4	(92.4)	(94.2)
Direct taxes paid	28.3	29.7	3.0	21.8	25.6	26.9
Cash Flow from Operations	31.9	98.0	34.9	12.7	87.5	79.3
(Inc.)/Dec. in Fixed Assets	(43.6)	(33.9)	(1.3)	(13.9)	(38.7)	(23.4)
(Inc.)/Dec. in Investments	-	-	-	-	-	-
(Inc.)/Dec. in loans and advances	(6.0)	1.2	10.4	44.3	(26.6)	(4.8)
Other income	(0.2)	(4.0)	(0.6)	-	-	-
Cash Flow from Investing	(49.8)	(36.8)	8.6	30.5	(65.3)	(28.2)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	47.3	(29.8)	(26.7)	25.3	(10.0)	(10.0)
Dividend Paid (Incl. Tax)	22.1	11.5	4.8	15.0	17.7	10.6
Others	(42.5)	(35.2)	(32.2)	(83.1)	(8.1)	(24.3)
Cash Flow from Financing	26.8	(53.5)	(54.1)	(42.8)	(0.4)	(23.7)
Inc./(Dec.) in Cash	9.0	7.7	(10.5)	0.3	21.8	27.4
Opening Cash balances	2.5	11.5	19.2	8.7	9.0	30.8
Closing Cash balances	11.5	19.2	8.7	9.0	30.8	58.1

Key Ratios

Y/E Sept.	SY07	SY08	SY09	SY10E	SY11E	SY12E
Valuation Ratio (x)						
P/E (on FDEPS)	11.0	10.6	61.1	13.4	12.0	11.2
P/CEPS	8.3	7.7	21.0	9.1	8.1	6.6
P/BV	4.7	3.5	3.4	2.8	2.5	2.0
Dividend yield (%)	3.2	1.7	0.7	2.2	2.6	2.8
EV/Sales	1.1	0.9	2.4	1.0	0.8	0.7
EV/EBITDA	7.1	6.0	19.6	7.4	6.1	5.5
EV / Total Assets	2.8	2.5	2.7	2.2	2.0	1.6
Per Share Data (₹)						
EPS (Basic)	35.5	36.9	6.4	29.2	32.6	35.0
EPS (fully diluted)	35.5	36.9	6.4	29.2	32.6	35.0
Cash EPS	46.8	50.7	18.6	43.1	48.3	59.4
DPS	12.5	6.5	2.7	8.5	10.0	11.0
Book Value	83.1	112.4	115.6	137.4	158.4	195.0
Dupont Analysis						
EBIT margin	13.1	11.5	5.0	10.0	10.1	10.1
Tax retention ratio	0.7	0.7	0.8	0.7	0.7	0.7
Asset turnover (x)	3.1	3.2	1.2	2.6	2.7	2.7
ROIC (Post-tax)	26.9	24.1	4.4	17.6	17.9	18.3
Cost of Debt (Post Tax)	6.4	4.9	6.4	4.1	4.9	4.8
Leverage (x)	0.6	0.5	0.3	0.3	0.2	-
Operating ROE	40.1	33.4	3.9	21.1	20.6	18.9
Returns (%)						
ROCE (Pre-tax)	39.6	34.6	5.5	25.5	25.4	24.0
Angel ROIC (Pre-tax)	34.6	36.3	6.0	23.7	27.2	26.8
ROE	48.6	37.8	5.6	23.1	22.1	19.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.8	2.9	1.0	2.4	2.5	2.4
Inventory / Sales (days)	40	40	101	41	44	43
Receivables (days)	38	38	91	52	50	50
Payables (days)	47	45	96	33	35	38
Working capital cycle (ex-cash) (days)	33	36	97	58	63	61
Solvency ratios (x)						
Net debt to equity	0.7	0.3	0.2	0.3	0.1	-
Net debt to EBITDA	0.9	0.5	1.2	0.7	0.3	(0.1)
Interest Coverage (EBIT / Interest)	10.3	13.2	2.7	18.9	15.9	20.0

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Disclosure of Interest Statement

Automotive Axles

1. Analyst ownership of the stock	Yes
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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