

Automotive Axles

Performance Highlights

Y/E September (₹ cr)	2QSY12	2QSY11	% chg (yoy)	1QSY12	% chg (yoy)
Net sales	296	278	6.3	293	1.0
Adj. EBITDA	37	35	5.8	37	(0.9)
Adj. EBITDA margin (%)	12.5	12.5	(6)bp	12.7	(24)bp
Reported PAT	19	18	4.6	20	(2.5)

Source: Company, Angel Research

Automotive Axles (ATXL) reported sluggish set of numbers for 2QSY2012 primarily on account of subdued growth in the medium and heavy commercial vehicle segment (MHCV) which is the primary revenue driver for the company. Going ahead, we expect MHCV demand to pick-up with the likely easing of interest rates from CY2012, helping ATXL to report healthy performance. However, we believe that the stock is fairly valued at current levels and therefore offers limited upside potential. **We maintain our Neutral rating on the stock.**

Modest 2QSY2012 results: ATXL reported modest 6.3% yoy (1% qoq) growth in net sales to ₹296cr in 2QSY2012 which was in-line with the growth in the MHCV segment which grew by 5.5% yoy. On the operating front, EBITDA margin remained stable at 12.5% on stable commodity prices. As a result, EBITDA grew by 5.8% yoy (down 0.9% qoq) to ₹37cr. Led by higher other income (₹2cr as against ₹0.1cr in 2QSY2011), net profit reported 4.6% yoy (down 2.5% qoq) growth to ₹19cr.

Outlook and valuation: During SY2011–13E, we expect ATXL to report a strong ~17% and ~23% CAGR in its top line and bottom line, respectively, driven largely by volume growth on the back of the likely revival in MHCV demand. We believe that at current levels of ₹498, ATXL is fairly valued at 8.7x its SY2013E earnings. Due to limited upside from current levels, we maintain our Neutral rating on the stock.

Key financials

Y/E September (₹ cr)	SY2010	SY2011	SY2012E	SY2013E
Net sales	668	1,010	1,211	1,387
% chg	150.8	51.2	19.9	14.6
Adj. profit	44	58	76	86
% chg	356.2	30.6	31.9	13.6
Adj. OPM (%)	13.0	11.3	12.1	11.7
EPS (₹)	29.2	38.1	50.3	57.1
P/E (x)	17.1	13.1	9.9	8.7
P/BV (x)	3.7	3.1	2.5	2.0
RoE (%)	23.3	25.7	27.8	25.7
RoCE (%)	25.1	29.9	33.6	31.6
EV/Sales (x)	1.2	0.8	0.7	0.6
EV/EBITDA (x)	9.4	7.0	5.5	4.8

Source: Company, Angel Research

NEUTRAL

CMP	₹498
Target Price	-
Investment Period	-

Stock Info

Sector	Auto Ancillary
Market Cap (₹ cr)	753
Beta	0.3
52 Week High / Low	560/320
Avg. Daily Volume	1,958
Face Value (₹)	10
BSE Sensex	16,480
Nifty	4,975
Reuters Code	ATOA.BO
Bloomberg Code	ATXL@IN

Shareholding Pattern (%)

Promoters	71.0
MF / Banks / Indian Fls	20.5
FII / NRIs / OCBs	0.5
Indian Public / Others	8.0

Abs. (%)	3m	1yr	3yr
Sensex	(7.6)	(11.1)	38.8
Automotive Axles	2.5	16.3	348.6

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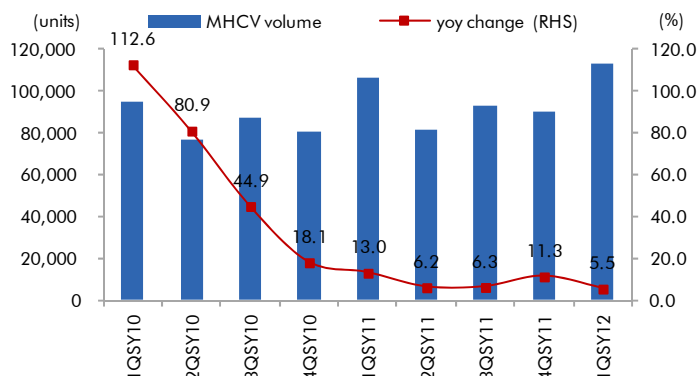
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Exhibit 1: Quarterly performance

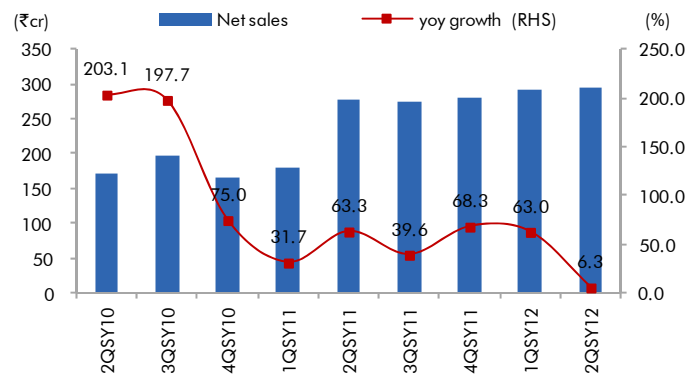
Y/E September (₹ cr)	2QSY12	2QSY11	% chg	1HSY12	1HSY11	% chg
Net Sales	296	278	6.3	588	458	28.5
Consumption of RM	212	200	5.8	420	327	28.2
(% of Sales)	71.6	71.9		71.4	71.5	
Staff Costs	15	13	12.7	30	25	20.4
(% of Sales)	5.1	4.8		5.0	5.4	
Other Expenses	32	30	6.8	65	49	33.3
(% of Sales)	10.8	10.7		11.0	10.6	
Total Expenditure	259	243	6.3	514	401	28.3
Operating Profit	37	35	5.8	74	57	29.7
OPM	12.5	12.5		12.6	12.5	
Interest	3	2	77.7	5	3	101.0
Depreciation	7	6	19.0	13	11	19.5
Other Income	2	0	1,527.4	2	0	886.1
PBT (excl. Extr. Items)	29	28	4.3	57	44	31.6
Extr. Income/(Expense)	-	-		0	-	
PBT (incl. Extr. Items)	29	28	4.3	57	44	31.6
(% of Sales)	9.7	9.9		9.8	9.5	
Provision for Taxation	9	9	3.5	18	16	19.2
(% of PBT)	33.0	33.3		32.2	35.5	
Reported PAT	19	18	4.6	39	28	38.4
PATM	6.5	6.6		6.6	6.2	
Equity capital (cr)	15.1	15.1		15.1	15.1	
EPS (₹)	12.7	12.2	4.6	25.8	18.6	38.4

Source: Company, Angel Research

Moderate growth in top-line: ATXL reported a modest 6.3% yoy (1% qoq) growth in its net sales to ₹296cr which was in-line with the growth in the medium and heavy commercial vehicle (MHCV) segment which grew by 5.5% yoy.

Exhibit 2: MHCV – Industry volume trend


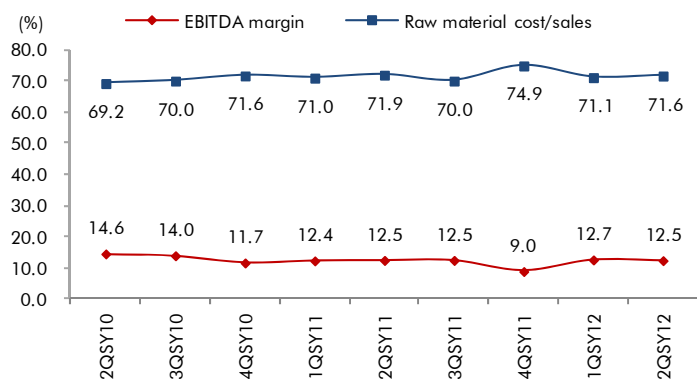
Source: Company, Angel Research

Exhibit 3: Modest top-line growth


Source: Company, Angel Research

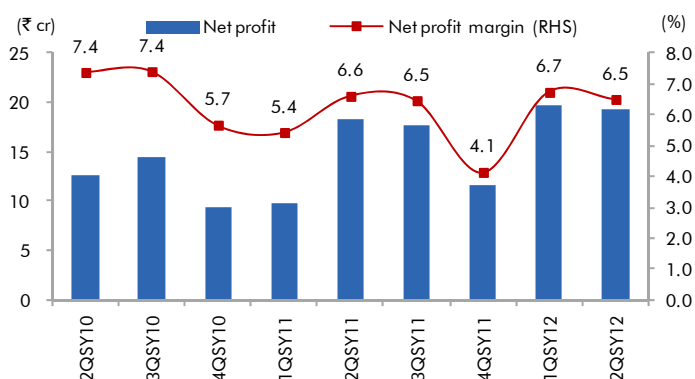
Stable operating performance: For 2QSY2012, ATXL reported a stable operating performance as EBITDA margin remained flat on yoy as well as sequential basis on stable commodity prices. During the quarter, raw-material expenditure stood at 71.6% as against 71.9% in 2QSY2011 of sales and other expenditure came in at 10.8% (up 10bp) of sales. As a result, EBITDA grew by 5.8% yoy (down 0.9% qoq) to ₹37cr.

Exhibit 4: EBITDA margin trend



Source: Company, Angel Research

Exhibit 5: Modest net profit growth of 4.6% yoy



Source: Company, Angel Research

Modest net profit growth of 4.6% yoy: Net profit during the quarter stood at ₹19cr posting a modest growth of 4.6% yoy (down 2.5% qoq). Negative effects of significant increase in depreciation (up 19% yoy) and interest expense (up 77.7% yoy) were mitigated by higher other income which stood at ₹2cr for the quarter.

Investment arguments

- **Revival in the MHCV segment to drive future growth:** ATXL derives ~95% of its revenue from the MHCV segment, which has witnessed moderate growth in recent times due to high interest rates and slowdown in industrial activity. However, we believe MHCV demand is near its trough; and with interest rates expected to cool down from CY2012, we expect pick-up in industrial activity, leading to a rebound in MHCV sales. Thus, ATXL is expected to be one of the major beneficiaries going ahead.
- **Improvement in utilization levels to help maintain operating margins:** The increase in volume off-take will aid in higher utilization levels, which will help ATXL offset the impact of increased raw-material prices to a certain extent. We expect operating margins to remain at 11-12% over SY2012E and SY2013E.

Outlook and valuation

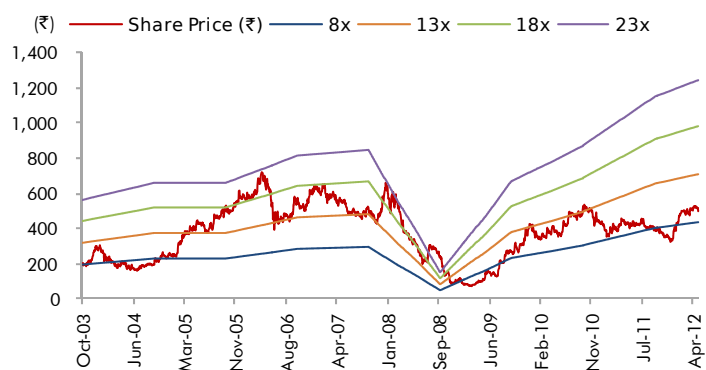
During SY2011–13E, we expect ATXL to report a strong ~17% and ~23% CAGR in its top line and bottom line, respectively, driven largely by volume growth on the back of the likely revival in MHCV demand. We believe that at current levels of ₹498, ATXL is fairly valued at 8.7x its SY2013E earnings. **Due to limited upside from current levels, we maintain our Neutral rating on the stock.**

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

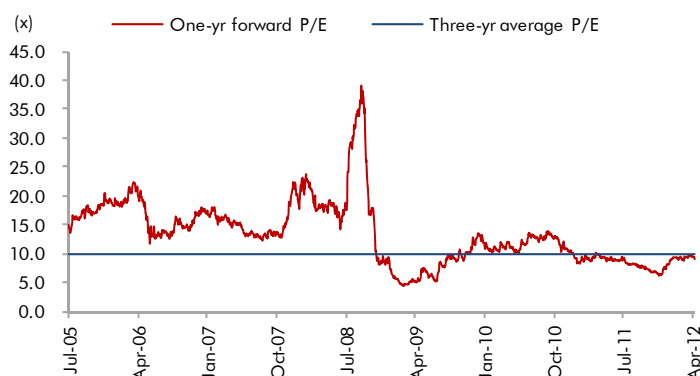
Exhibit 6: Key assumptions

Y/E September (₹ cr)	SY2008	SY2009	SY2010	SY2011	SY2012E	SY2013E
Gross revenue	848	291	732	1,111	1,333	1,527
Complete axles	661	211	609	829	919	1,025
Brake Shoe/Spares/Others	-	-	-	156	268	345
Axle Housing	44	14	40	37	45	46
Brakes business (recently acquired)	143	66	83	89	102	112

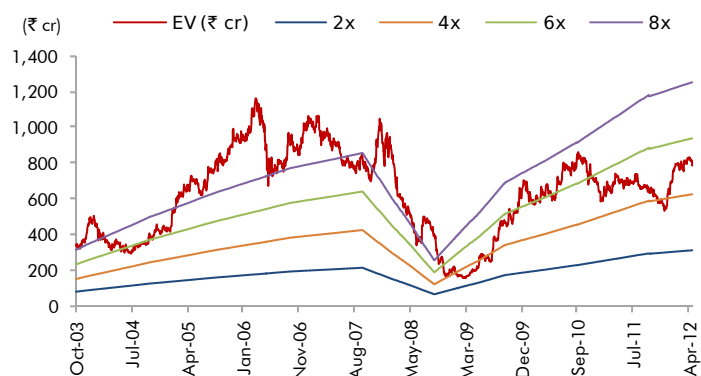
Source: Company, Angel Research

Exhibit 7: One-year forward P/E band


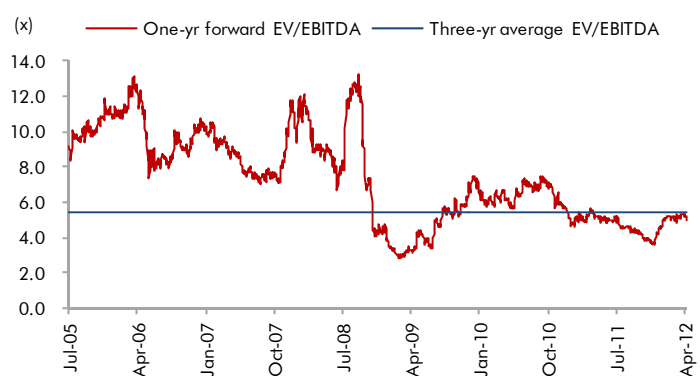
Source: Company, Bloomberg, Angel Research

Exhibit 8: One-year forward P/E chart


Source: Company, Bloomberg, Angel Research

Exhibit 9: One-year forward EV/EBITDA band


Source: Company, Angel Research, Bloomberg

Exhibit 10: One-year forward EV/EBITDA chart


Source: Company, Angel Research, Bloomberg

Exhibit 11: Automobile - Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY11-14E EPS
					FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	CAGR (%)
Amara Raja	Buy	285	345	21.1	9.7	8.7	5.5	4.6	26.5	23.6	23.8
Automotive Axle[^]	Neutral	498	-	-	9.9	8.7	5.5	4.8	27.8	25.7	25.1
Bharat Forge*	Accumulate	335	372	11.1	15.0	12.6	7.1	6.0	21.0	21.0	28.7
Bosch India [#]	Neutral	9,084	-	-	21.6	19.3	14.1	12.3	23.2	21.8	19.9
Exide Industries	Buy	127	146	15.6	17.8	14.1	9.8	7.4	18.6	20.3	7.1
FAG Bearings [#]	Accumulate	1,509	1,594	5.6	12.8	11.4	7.3	6.1	24.0	21.9	22.9
Motherson Sumi*	Buy	167	216	29.2	14.7	11.6	7.0	5.8	23.3	24.7	13.2
Subros	Neutral	31	-	-	7.4	6.2	4.1	3.9	10.3	11.8	1.5

Source: Company, Angel Research; Note: * Consolidated results; # December year end; ^ September year end

Profit and loss statement

Y/E September (₹ cr)	SY08	SY09	SY10	SY11	SY12E	SY13E
Gross sales	848	291	732	1,111	1,333	1,527
Excise taxes	101	24	64	101	122	140
Net sales	747	266	668	1,010	1,211	1,387
% chg	23.0	(64.3)	150.8	51.2	19.9	14.6
Total expenditure	640	234	581	896	1,064	1,225
Net Raw Materials	523	181	474	730	866	996
Other Mfg costs	42	29	48	65	78	90
Personnel	18	7	13	22	26	30
Other	57	18	48	79	94	109
EBITDA	107	32	87	114	147	163
% chg	10.9	(70.1)	171.1	31.8	28.5	11.0
(% of Net Sales)	14.3	12.0	13.0	11.3	12.1	11.7
Depreciation	21	19	21	23	28	30
EBIT	86	13	66	91	119	133
% chg	8.4	(84.4)	388.2	38.3	31.3	11.7
(% of Net Sales)	11.5	5.0	9.8	9.0	9.8	9.6
Interest & other Charges	7	5	4	7	9	8
Other Income	6	4	4	3	4	4
PBT	85	13	66	87	113	129
% chg	4	(85)	420	32	30	14
Extr. Exp./ (Inc.)	-	(0)	-	-	-	-
PBT (reported)	85	13	66	87	113	129
Tax	30	3	22	30	37	43
(% of PBT)	34.8	23.7	33.1	33.9	33.0	33.0
PAT (reported)	56	10	44	58	76	86
ADJ. PAT	56	10	44	58	76	86
% chg	4.0	(82.7)	356.2	30.6	31.9	13.6
(% of Net Sales)	7.5	3.6	6.6	5.7	6.3	6.2
Basic EPS (₹)	36.9	6.4	29.1	38.1	50.3	57.1
Fully Diluted EPS (₹)	36.9	6.4	29.2	38.1	50.3	57.1
% chg	4.0	(82.7)	356.2	30.6	31.9	13.6

Balance sheet

Y/E September (₹ cr)	SY08	SY09	SY10	SY11	SY12E	SY13E
SOURCES OF FUNDS						
Equity Share Capital	15	15	15	15	15	15
Reserves & Surplus	155	160	189	229	287	356
Shareholders' Funds	170	175	204	244	302	371
Total Loans	72	45	71	62	77	67
Deferred Tax Liability	14	14	14	12	12	12
Total Liabilities	256	234	288	318	391	450
APPLICATION OF FUNDS						
Gross Block	274	276	281	317	357	385
Less: Acc. Depreciation	113	131	149	171	199	228
Net Block	161	145	133	146	158	157
Capital Work-in-Progress	8	7	8	10	11	12
Investments	-	-	-	-	-	-
Current Assets	188	146	234	335	361	462
Cash	19	9	9	11	27	46
Loans & Advances	16	11	11	22	27	35
Other	153	127	214	301	308	381
Current liabilities	101	64	87	174	140	181
Net Current Assets	87	82	147	161	222	281
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	256	234	288	318	391	450

Cash flow statement

Y/E September (₹ cr)	SY08	SY09	SY10	SY11	SY12E	SY13E
Profit before tax	85	13	66	87	113	129
Depreciation	21	19	21	23	28	30
Change in Working Capital	4	0	(70)	(11)	(45)	(40)
Others	23	12	0	5	-	-
Other income	(6)	(4)	(4)	(3)	(4)	(4)
Direct taxes paid	(30)	(3)	(22)	(30)	(37)	(43)
Cash Flow from Operations	98	36	(8)	72	55	72
(Inc./Dec. in Fixed Assets	(34)	(1)	(7)	(38)	(40)	(29)
(Inc./Dec. in Investments	-	-	-	-	-	-
Other income	6	4	4	3	4	4
Cash Flow from Investing	(28)	3	(3)	(35)	(37)	(25)
Issue of Equity	-	-	-	-	-	-
Inc./Dec. in loans	(30)	(27)	25	(9)	15	(10)
Dividend Paid (Incl. Tax)	11	5	15	18	18	18
Others	(44)	(28)	(29)	(43)	-	-
Cash Flow from Financing	(62)	(50)	11	(35)	(3)	(28)
Inc./Dec. in Cash	7	(10)	0	2	15	19
Opening Cash balances	12	19	9	9	11	27
Closing Cash balances	19	9	9	11	27	46

Key ratios

Y/E September	SY08	SY09	SY10	SY11	SY12E	SY13E
Valuation Ratio (x)						
P/E (on FDEPS)	13.5	78.0	17.1	13.1	9.9	8.7
P/CEPS	9.8	26.7	11.6	9.3	7.3	6.5
P/BV	4.4	4.3	3.7	3.1	2.5	2.0
Dividend yield (%)	1.3	0.5	1.7	2.0	2.0	2.0
EV/Sales	1.1	3.0	1.2	0.8	0.7	0.6
EV/EBITDA	7.5	24.7	9.4	7.0	5.5	4.8
EV / Total Assets	3.1	3.4	2.8	2.5	2.1	1.7
Per Share Data (₹)						
EPS (Basic)	36.9	6.4	29.1	38.1	50.3	57.1
EPS (fully diluted)	36.9	6.4	29.2	38.1	50.3	57.1
Cash EPS	50.7	18.6	43.0	53.6	68.5	76.8
DPS	6.5	2.7	8.5	10.0	10.0	10.0
Book Value	112.4	115.6	134.9	161.4	200.0	245.4
Dupont Analysis						
EBIT margin	11.5	5.0	9.8	9.0	9.8	9.6
Tax retention ratio	0.7	0.8	0.7	0.7	0.7	0.7
Asset turnover (x)	3.2	1.2	2.6	3.4	3.6	3.6
ROIC (Post-tax)	24.1	4.4	17.4	20.5	23.8	23.2
Cost of Debt (Post Tax)	4.9	6.4	4.3	6.8	8.9	7.5
Leverage (x)	0.5	0.3	0.3	0.3	0.2	0.1
Operating ROE	33.4	3.9	20.8	23.9	26.5	24.9
Returns (%)						
ROCE (Pre-tax)	34.6	5.5	25.1	29.9	33.6	31.6
Angel ROIC (Pre-tax)	36.3	6.0	23.5	29.6	32.7	32.9
ROE	37.8	5.6	23.3	25.7	27.8	25.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.9	1.0	2.4	3.4	3.6	3.7
Inventory / Sales (days)	40	101	41	36	37	39
Receivables (days)	38	91	52	57	56	61
Payables (days)	45	96	33	38	39	35
Working capital cycle (ex-cash) (days)	36	97	58	52	52	57
Solvency ratios (x)						
Net debt to equity	0.3	0.2	0.3	0.2	0.2	0.1
Net debt to EBITDA	0.5	1.2	0.7	0.4	0.3	0.1
Interest Coverage (EBIT / Interest)	13.2	2.7	17.6	13.4	12.9	16.6

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1. Analyst ownership of the stock	No
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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