

Automotive Axles

Performance Highlights

Y/E September (₹ cr)	3QSY12	3QSY11	% chg (yoy)	2QSY12	% chg (qoq)
Net Sales	182	274	(33.6)	293	(37.9)
EBITDA	18	34	(47.7)	37	(51.7)
EBITDA Margin (%)	9.9	12.5	(266)bp	12.7	(283)bp
Adj. PAT	6	18	(66.5)	20	(69.9)

Source: Company, Angel Research

Automotive Axles (ATXL) reported disappointing 3QSY2012 results primarily due to 12.8% yoy (36.6% qoq) volume decline in the medium and heavy commercial vehicle industry (MHCV) which is the primary revenue driver of the company. Further, margin pressures on account of lower operating leverage benefits also impacted ATXL's operating performance. Going ahead, we expect the growth outlook for the MHCV segment to remain challenging in 4QSY2013E led by slowdown in the industrial activity. **We maintain our Neutral rating on the stock.**

Poor performance for 3QSY2012: For 3QSY2012, ATXL reported 33.6% yoy (37.9% qoq) decline in net sales to ₹182cr led by 12.8% yoy (36.6% qoq) decline in MHCV sales. MHCV sales have seen a slump in demand due to general slowdown in the economy led by weakening industrial activity. On the operating front, EBITDA margins declined sharply by 266bp yoy (283bp qoq) to 9.9% following increase in staff expenses and other expenditure. This could probably be on account of lower operating leverage benefit during the quarter. As a result, EBITDA declined by 47.7% yoy (51.7% qoq) to ₹18cr. Led by weak operating performance net profit witnessed a steep fall of 66.5% yoy (69.9% qoq) to ₹6cr.

Outlook and valuation: During SY2011–13E, we expect ATXL to report slightly subdued CAGR of ~6% each in its top line and bottom line, respectively. We believe that at current levels of ₹411, ATXL is fairly valued at 9.6x its SY2013E earnings. **Due to limited upside from current levels, we maintain our Neutral rating on the stock.**

Key financials (Standalone)

Y/E September (₹ cr)	SY2010	SY2011	SY2012E	SY2013E
Net Sales	668	1,010	993	1,140
% chg	150.8	51.2	(1.7)	14.8
Net Profit	44	58	56	65
% chg	356.2	30.6	(3.1)	16.4
EBITDA (%)	13.0	11.3	11.6	11.5
EPS (₹)	29.2	38.1	36.9	43.0
P/E (x)	14.1	10.8	11.1	9.6
P/BV (x)	3.0	2.5	2.2	1.9
RoE (%)	23.3	25.7	21.2	21.2
RoCE (%)	25.1	29.9	25.7	25.9
EV/Sales (x)	1.0	0.7	0.7	0.5
EV/EBITDA (x)	7.9	5.9	5.8	4.6

Source: Company, Angel Research

NEUTRAL

CMP	₹411
Target Price	-

Investment Period	-
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Stock Info	
Sector	Auto Ancillary
Market Cap (₹ cr)	621
Net Debt (₹ cr)	(13)
Beta	0.3
52 Week High / Low	560/320
Avg. Daily Volume	1,867
Face Value (₹)	10.0
BSE Sensex	17,158
Nifty	5,205
Reuters Code	ATO.A.BO
Bloomberg Code	ATXL@IN

Shareholding Pattern (%)	
Promoters	71.0
MF / Banks / Indian Fls	20.4
FII / NRIs / OCBs	0.5
Indian Public / Others	8.1

Abs. (%)	3m	1yr	3yr
Sensex	(1.2)	(7.3)	13.0
Automotive Axles	(21.8)	(4.4)	211.5

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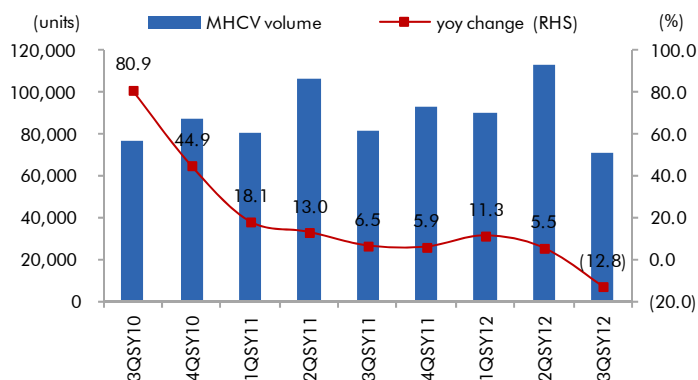
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Exhibit 1: 3QSY2012 financial performance (Standalone)

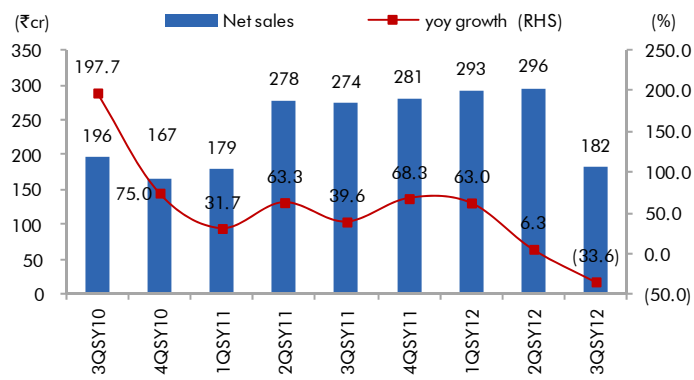
Y/E September (₹ cr)	3QSY12	3QSY11	% chg (yoy)	2QSY12	% chg (qoq)	9MSY12	9MSY11	% chg (yoy)
Net Sales	182	274	(33.6)	296	(38.5)	770	732	5.2
Consumption of RM	124	192	(35.3)	212	(41.3)	544	519	4.8
(% of sales)	68.3	70.0		71.6		70.6	71.0	
Staff Costs	15	14	3.6	15	(4.2)	44	39	14.3
(% of sales)	8.0	5.1		5.1		5.7	5.3	
Other Expenses	25	34	(25.4)	32	(21.0)	90	82	9.2
(% of sales)	13.9	12.3		10.8		11.7	11.3	
Total Expenditure	164	240	(31.6)	259	(36.7)	678	640	5.9
Operating Profit	18	34	(47.7)	37	(51.3)	92	91	0.6
OPM (%)	9.9	12.5		12.5		11.9	12.5	
Interest	2	2	29.6	3	(12.5)	8	4	70.6
Depreciation	7	6	9.3	7	(0.4)	20	17	15.8
Other Income	0	0	340	2	(86)	2	0	766.4
PBT (excl. Extr. Items)	9	26	(66.2)	29	(69.1)	66	70	(5.1)
Extr. Income/(Expense)	-	-	-	-	-	-	-	-
PBT (incl. Extr. Items)	9	26	(66.2)	29	(69.1)	66	70	(5.1)
(% of sales)	4.9	9.6		9.7		8.6	9.6	
Provision for Taxation	3	8	(65.4)	9	(69.1)	21	24	(10.7)
(% of PBT)	33.0	32.3		33.0		32.3	34.3	
Reported PAT	6	18	(66.5)	19	(69.1)	45	46	(2.1)
Adj. PATM	3.3	6.5		6.5		5.8	6.3	
Equity capital (cr)	15.1	15.1		15.1		15.1	15.1	
Reported EPS (₹)	3.9	11.7	(66.5)	12.7	(69.1)	29.7	30.4	(2.1)

Source: Company, Angel Research

Top-line falls sharply due to decline in MHCV sales: For 3QSY2012, ATXL reported 33.6% yoy (37.9% qoq) decline in net sales to ₹182cr led by 12.8% yoy (36.6% qoq) decline in MHCV sales. MHCV sales have seen a slump in demand due to general slowdown in the economy led by weakening industrial activity.

Exhibit 2: MHCV sales down 12.8% yoy...


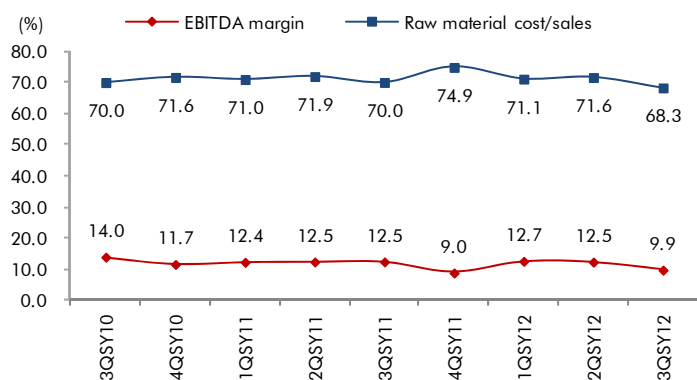
Source: Company, Angel Research

Exhibit 3: ... leading to 33.6% yoy decline in top-line


Source: Company, Angel Research

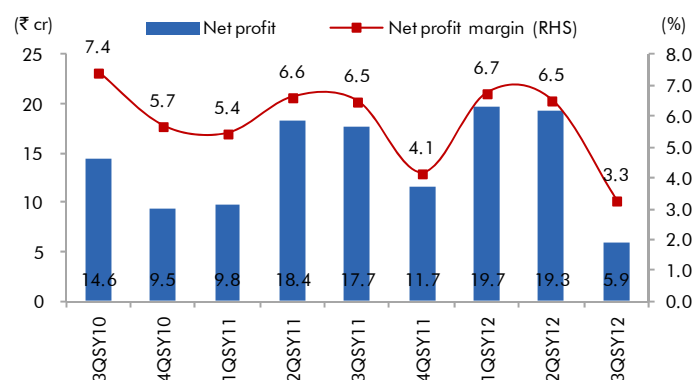
Operating margins nosedive sharply: For 3QSY2012, ATXL reported a sharp dip in operating margins at 9.9%, a decline of 266bp yoy and 283bp qoq. As a result, operating profit saw a 47.7% yoy (51.3% qoq) fall to ₹18cr. While, the raw-material expenditure declined 170bp yoy (330bp qoq) lending support to the operating margins; staff cost and other expenditure witnessed a steep increase of 290bp (290bp qoq) and 160bp (310bp qoq) yoy, respectively.

Exhibit 4: EBITDA margin trend



Source: Company, Angel Research

Exhibit 5: Net profit down 66.5% yoy



Source: Company, Angel Research

Net profit down sharply by 66.5% yoy: Led by weak operating performance, net profit witnessed a steep fall of 66.5% yoy (69.9% qoq) to ₹6cr.

Investment arguments

- **Slowdown in the MHCV segment to restrict top-line growth:** ATXL derives ~95% of its revenue from the MHCV segment, which has witnessed decline in growth in recent times due to relatively high interest rates and slowdown in industrial activity.
- **Declining raw-material prices to help maintain operating margins:** The recent trend of stable to declining raw-material prices is expected to mitigate decline in volume off-take in SY2012E. We expect operating margins to remain in the range of 11-12% over SY2012E and SY2013E.

Outlook and valuation

Going ahead, we expect the growth outlook for the MHCV segment to remain challenging in 4QSY2012E led by slowdown in the industrial activity.

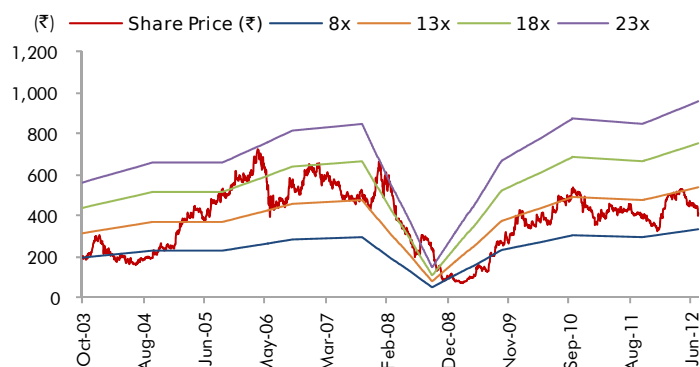
During SY2011–13E, we expect ATXL to report slightly subdued CAGR of ~6% each in its top line and bottom line, respectively. We believe that at current levels of ₹411, ATXL is fairly valued at 9.6x its SY2013E earnings. **Due to limited upside from current levels, we maintain our Neutral rating on the 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.

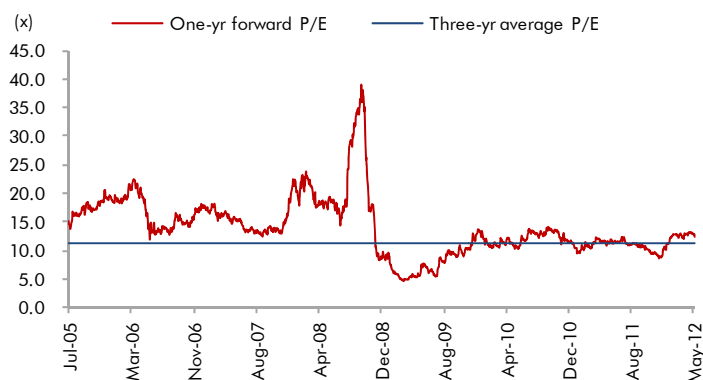
Exhibit 6: Key assumptions

Y/E September (₹ cr)	SY2008	SY2009	SY2010	SY2011	SY2012E	SY2013E
Gross revenue	848	291	732	1,111	1,093	1,254
Complete axles	661	211	609	829	754	871
Brake Shoe/Spares/Others	-	-	-	156	207	236
Axle Housing	44	14	40	37	42	45
Brakes business (recently acquired)	143	66	83	89	90	102

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: Auto Ancillary – Recommendation summary

Company	Reco.	CMP (₹)	Tgt. price (₹)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY12-14E EPS
					FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	CAGR (%)
Amara Raja Batteries	Accumulate	301	345	14.6	10.3	9.2	5.9	4.9	26.0	23.3	14.1
Automotive Axle[^]	Neutral	411	-	-	11.1	9.6	5.8	4.6	21.2	21.2	6.2
Bharat Forge*	Buy	297	372	25.2	13.3	11.2	6.4	5.3	21.0	21.0	21.7
Bosch India [#]	Neutral	8,805	-	-	21.5	19.1	13.8	11.9	22.1	20.4	16.4
Exide Industries	Accumulate	131	149	13.7	17.8	14.3	9.8	7.6	19.0	20.2	29.7
FAG Bearings [#]	Neutral	1,489	-	-	13.4	11.5	7.8	6.2	22.8	21.7	10.8
Motherson Sumi*	Buy	170	216	27.0	12.8	9.4	5.8	4.6	26.2	28.4	54.6
Subros	Accumulate	33	36	9.4	7.3	6.4	4.6	4.1	9.8	11.0	25.7

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

Company background

Automotive Axles (ATXL), a JV between Kalyani Group and Meritor Heavy Vehicle Systems, USA (35.5% stake each), is one of India's largest independent manufacturers of rear drive axle assemblies. ATXL's product portfolio includes a wide range of rear drive axles and air brakes, which are used in commercial vehicles. In SY2011, ATXL also forayed into the automotive brakes business by acquiring a brake manufacturing facility from Kalyani Global Engineering for ₹14.6cr; it currently forms ~17% of ATXL's total revenue. The company exports to the U.S., France, Italy, China, Australia and Brazil. Exports account for 6% of the company's total revenue. ATXL's domestic clients include Ashok Leyland (~55% of revenue), Tata Motors (~25% of revenue), Eicher Motors, Asia Motor Works and Indian army, amongst others.

Profit and loss statement (Standalone)

Y/E September (₹ cr)	SY08	SY09	SY10	SY11	SY12E	SY13E
Total operating income	747	266	668	1,010	993	1,140
% chg	23.0	(64.3)	150.8	51.2	(1.7)	14.8
Total expenditure	640	234	581	896	877	1,008
Net raw material costs	523	181	474	730	715	821
Other mfg costs	42	29	48	65	64	74
Employee expenses	18	7	13	22	21	25
Other	57	18	48	79	77	89
EBITDA	107	32	87	114	115	131
% chg	10.9	(70.1)	171.1	31.8	0.9	14.0
(% of total op. income)	14.3	12.0	13.0	11.3	11.6	11.5
Depreciation & amortization	21	19	21	23	27	29
EBIT	86	13	66	91	88	102
% chg	8.4	(84.4)	388.2	38.3	(2.6)	15.8
(% of total op. income)	11.5	5.0	9.8	9.0	8.9	9.0
Interest and other charges	7	5	4	7	9	9
Other income	6	4	4	3	4	4
Recurring PBT	85	13	66	87	83	97
% chg	4	(85)	420	32	(5)	17
Extraordinary items	-	-	-	-	-	-
PBT (reported)	85	13	66	87	83	97
Tax	30	3	22	30	27	32
(% of PBT)	34.8	23.7	33.1	33.9	32.5	33.0
PAT (reported)	56	10	44	58	56	65
ADJ. PAT	56	10	44	58	56	65
% chg	4.0	(82.7)	356.2	30.6	(3.1)	16.4
(% of total op. income)	7.5	3.6	6.6	5.7	5.6	5.7
Basic EPS (₹)	36.9	6.4	29.1	38.1	36.9	43.0
Adj. EPS (₹)	36.9	6.4	29.2	38.1	36.9	43.0
% chg	4.0	(82.7)	356.2	30.6	(3.1)	16.4

Balance sheet statement (Standalone)

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	267	314
Shareholders' funds	170	175	204	244	282	329
Total loans	72	45	71	62	77	77
Deferred tax liability	14	14	14	12	12	12
Total Liabilities	256	234	288	318	371	418
APPLICATION OF FUNDS						
Gross block	274	276	281	317	348	377
Less: Acc. depreciation	113	131	149	171	198	227
Net Block	161	145	133	146	150	150
Capital work-in-progress	8	7	8	10	10	11
Investments	-	-	-	-	-	-
Current assets	188	146	234	335	313	446
Cash	19	9	9	11	31	94
Loans & advances	16	11	11	22	22	46
Other	153	127	214	301	260	306
Current liabilities	101	64	87	174	103	189
Net current assets	87	82	147	161	210	256
Total Assets	256	234	288	318	371	418

Source: Company, Angel Research

Cash flow statement (Standalone)

Y/E September (₹ cr)	SY08	SY09	SY10	SY11	SY12E	SY13E
Profit before tax	85	13	66	87	83	97
Depreciation	21	19	21	23	27	29
Change in working capital	4	0	(70)	(11)	(30)	17
Others	23	12	0	5	-	-
Other income	(6)	(4)	(4)	(3)	(4)	(4)
Direct taxes paid	(30)	(3)	(22)	(30)	(27)	(32)
Cash Flow from Operations	98	36	(8)	72	50	107
(Inc./Dec. in fixed assets)	(34)	(1)	(7)	(38)	(31)	(30)
(Inc./Dec. in investments)	-	-	-	-	-	-
Other income	6	4	4	3	4	4
Cash Flow from Investing	(28)	3	(3)	(35)	(27)	(26)
Issue of equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(30)	(27)	25	(9)	15	-
Dividend paid (Incl. Tax)	11	5	15	18	18	18
Others	(44)	(28)	(29)	(43)	-	-
Cash Flow from Financing	(62)	(50)	11	(35)	(3)	(18)
Inc./(Dec.) in cash	7	(10)	0	2	19	63
Opening Cash balances	12	19	9	9	11	31
Closing Cash balances	19	9	9	11	31	94

Key ratios

Y/E September	SY08	SY09	SY10	SY11	SY12E	SY13E
Valuation Ratio (x)						
P/E (on FDEPS)	11.1	64.3	14.1	10.8	11.1	9.6
P/CEPS	8.1	22.1	9.6	7.7	7.5	6.6
P/BV	3.7	3.6	3.0	2.5	2.2	1.9
Dividend yield (%)	1.6	0.7	2.1	2.4	2.4	2.4
EV/Sales	0.9	2.5	1.0	0.7	0.7	0.5
EV/EBITDA	6.3	20.6	7.9	5.9	5.8	4.6
EV / Total Assets	2.6	2.8	2.4	2.1	1.8	1.4
Per Share Data (₹)						
EPS (Basic)	36.9	6.4	29.1	38.1	36.9	43.0
EPS (fully diluted)	36.9	6.4	29.2	38.1	36.9	43.0
Cash EPS	50.7	18.6	43.0	53.6	54.7	62.2
DPS	6.5	2.7	8.5	10.0	10.0	10.0
Book Value	112.4	115.6	134.9	161.4	186.6	217.9
Dupont Analysis						
EBIT margin	11.5	5.0	9.8	9.0	8.9	9.0
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	3.1	3.4
ROIC (Post-tax)	24.1	4.4	17.4	20.5	18.4	20.6
Cost of Debt (Post Tax)	4.9	6.4	4.3	6.8	9.0	8.0
Leverage (x)	0.5	0.3	0.3	0.3	0.2	0.0
Operating ROE	33.4	3.9	20.8	23.9	20.2	21.2
Returns (%)						
ROCE (Pre-tax)	34.6	5.5	25.1	29.9	25.7	25.9
Angel ROIC (Pre-tax)	36.3	6.0	23.5	29.6	26.0	31.6
ROE	37.8	5.6	23.3	25.7	21.2	21.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	2.9	1.0	2.4	3.4	3.0	3.1
Inventory / Sales (days)	40	101	41	36	39	40
Receivables (days)	38	91	52	57	56	58
Payables (days)	45	96	33	38	41	38
WC cycle (ex-cash) (days)	36	97	58	52	61	55
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	0.4	(0.1)
Interest Coverage (EBIT / Int.)	13.2	2.7	17.6	13.4	9.6	11.1

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Disclosure of Interest Statement	Automotive Axles
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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