

# Automotive Axle (AUTAXL)

₹ 419

## WHAT'S CHANGED...

PRICE TARGET ..... Changed from ₹ 400 to ₹ 444  
 EPS (SY12E)..... Changed from ₹ 43.5 to ₹ 42.7  
 EPS (SY13E)..... Changed from ₹ 57.1 to ₹ 63.4  
 RATING..... Changed from Buy to Hold

## Expectations surpassed; outlook cautious!!!

Automotive Axle (AAL) announced its Q1SY12 results, which were above our estimates. The topline surpassed our expectations clocking ₹ 292.6 crore (up 4.1% QoQ) vs. our flat expectations (I-direct estimate: ₹ 267.5 crore). The company witnessed a strong rebound on the EBITDA margin front with margins shooting up ~372 bps QoQ to 12.7%. However, we attribute the jump in margins to higher consumption of finished goods inventory during the quarter, which is reflected in stock adjustment to the tune of ₹ 9.8 crore. Adjusting for this, the margins came in line with our estimates at 9.3%. RM cost as a proportion of sales dipped ~374 bps sequentially with employee and other expenses hovering at similar levels. The company reported PAT of ₹ 19.7 crore reflecting a 69.3% QoQ and 102.0% YoY leap.

### Key highlights for the quarter

The company reported a commendable sequential rise in topline despite its key clients like Tata Motors (down 0.6% QoQ) and Ashok Leyland (down 12.9% QoQ) posting sequential de-growth in the M&HCV category. The revenue rise can be attributed to a combination of better product mix coupled with robust sales from the recently purchased brake manufacturing facilities at Mysore from Kalyani Global Engineering Pvt Ltd. AAL currently caters to ~10% (Tata Motors) and ~70% (Ashok Leyland) requirements in terms of axle housings. The margins surprised positively. However, our outlook remains cautious and we would wait to see if margin expansion pans out in the coming few quarters.

## Valuation

The domestic commercial vehicle segment has shown stiff resistance to relentless macros and has grown 19.3% YTD. Going ahead, interest rate cuts by the RBI could be a positive trigger. However, we remain cautious on the margin expansion front. At the CMP of ₹ 419, the stock is trading at 9.8x SY12E EPS of ₹ 42.7 and 6.6x SY13E EPS of ₹ 63.4. We have valued the stock at 7x SY13E EPS of ₹ 63.4 to arrive at target price of ₹ 444 implying a 6% potential upside. We have a **HOLD** rating on the stock.

### Exhibit 1: Financial Performance

(₹ Crore)	Q1SY12	Q1SY12E	Q1SY11	Q4SY11	QoQ (Chg %)	YoY (Chg %)
Net Sales	292.6	267.5	179.5	281.0	4.1	63.0
EBITDA	37.2	25.5	22.2	25.2	47.3	67.2
EBITDA %	12.7	9.5	12.4	9.0	372bps	31bps
Depreciation	6.3	6.1	5.2	6.1	2.4	20.2
Interest	2.3	1.5	1.0	2.1	9.1	138.6
Reported PAT	19.7	9.8	9.8	11.7	69.3	102.0
EPS (₹)	13.1	6.5	6.5	7.7	69.3	102.0

SY~September year end

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	: <b>Hold</b>
Target	: ₹ 444
Target Period	: 12 months
Potential Upside	: 6 %

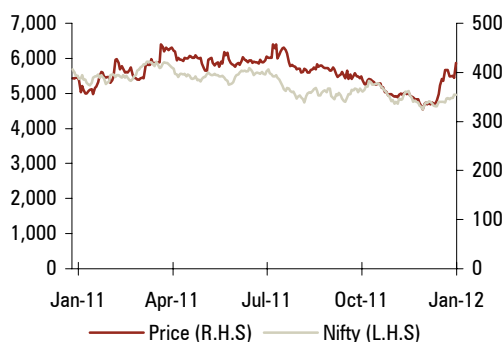
Key Financials				
₹ Crore	SY10	SY11	SY12E	SY13E
Net Sales	669.7	1,012.5	1,220.8	1,408.8
EBITDA	88.2	116.6	136.8	182.0
Net Profit	44.1	57.6	64.5	95.9
EPS (₹)	29.2	38.1	42.7	63.4

SY~September year end

Valuation summary				
	SY10	SY11	SY12E	SY13E
P/E	14.4	11.0	9.8	6.6
Target P/E	15.2	11.6	10.4	7.0
EV / EBITDA	7.9	5.9	4.9	3.6
P/BV	3.1	2.6	2.2	1.7
RoNW	21.6	23.6	22.2	26.0
RoCE	24.5	30.5	31.5	35.7

Stock data	
Mcap	₹633.5crore
Debt (Sep'11)	₹61.8crore
Cash (Sep11)	₹11.4crore
EV	₹683.9crore
52 week H/L	₹472 / 321
Equity cap	₹15.1crore
Face value	₹10
MF Holding	9.8%
FII Holding	0.2%

### Price movement

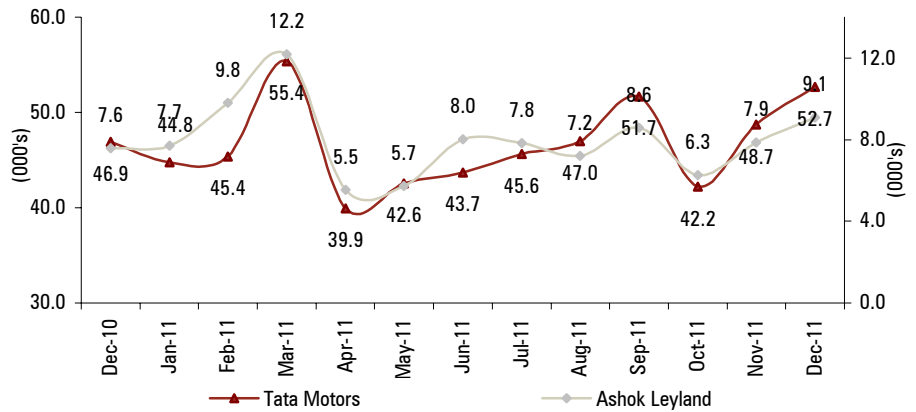


### Analyst's name

Karan Mittal  
karan.mittal@icicisecurities.com  
Nishant Vass  
nishant.vass@icicisecurities.com  
Aman Daga  
aman.daga@icicisecurities.com

The CV segment of Tata Motors witnessed a flat Q1SY12 with sales dipping marginally by 0.5% QoQ while Ashok Leyland, one of AAL's key customers, witnessed a volume decline of 1.7% QoQ in Q1SY12

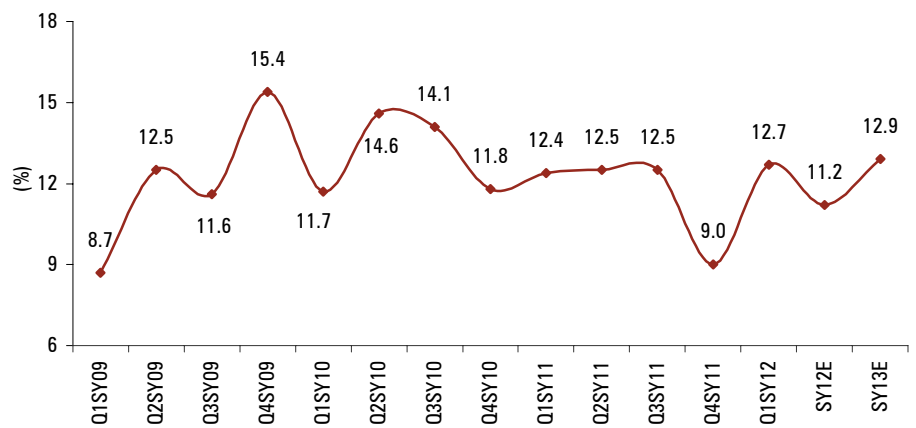
**Exhibit 2: CV sales performance of major clients**



Source: ICICIdirect.com Research

The company posted a 372 bps QoQ jump in EBITDA margin to 12.7%. Going forward, we expect margins to improve to 12.9% in SY13E aided by a cool-off in commodity prices from current levels

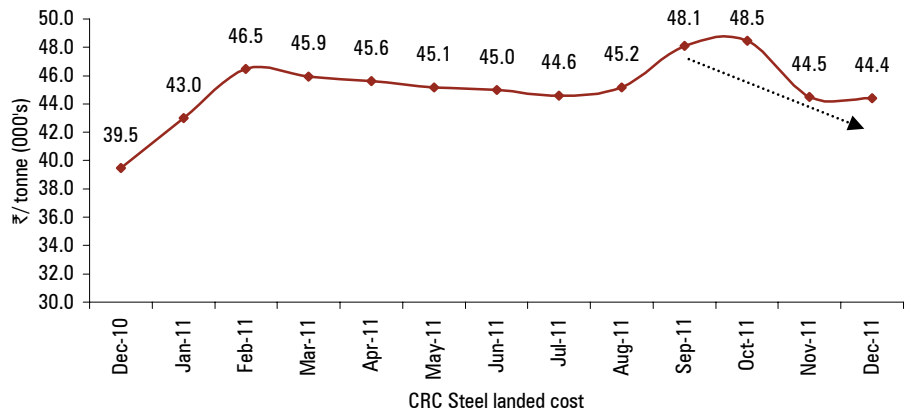
**Exhibit 3: Margin movement trend and forecasts (%)**



Source: Company, ICICIdirect.com Research

Domestic CRC steel prices continue to remain firm (up ~12.4% YoY). Steel prices have declined since September 2011. However, we expect prices to remain firm at similar levels in the near term

**Exhibit 4: Steel prices continue to remain firm**



Source: Company, ICICIdirect.com Research

## Outlook & valuations

### Outlook

Automotive Axle (a Kalyani Group company) with its JV partner Arvin Meritor possesses a distinctive advantage of being a complete solutions supplier in the axle related business to major domestic CV manufacturers like Tata Motors and Ashok Leyland and also to certain European and American clients. We remain optimistic on the growth prospects of the CV industry aided by the potential triggers of rate cuts leading to a ramp-up in infrastructure activity. SIAM has recently announced its industry forecasts for the next fiscal with the commercial vehicle segment pegged to grow at 12-14% (I-direct estimate of 12-15% for M&HCV, 16-18% for LCV). The domestic demand in the CV segment has continued to remain robust despite macro headwinds plaguing the sector.

The entry into the brake manufacturing business has enabled AAL to improve its content per vehicle. However, it remains a potential margin dragger until the entire realignment activities are concluded. Going ahead, we expect the company to post a CAGR of 18.0% and 29.0% over SY11-13E in terms of topline and bottomline, respectively. We remain cautious on the margin front as higher steel prices could turn out to be a margin dampener.

### Valuation

The domestic commercial vehicle segment has shown stiff resistance towards relentless macros and has grown 19.3% YTD. Going ahead, interest rate cuts by the RBI could be a positive trigger. However, we remain cautious on the margin expansion front. At the CMP of ₹ 419, the stock is trading at 9.8x SY12E EPS of ₹ 42.7 and 6.6x SY13E EPS of ₹ 63.4. We have valued the stock at 7x SY13E EPS of ₹ 63.4 to arrive at a target price of ₹ 444 implying a 6% potential upside. We have a **HOLD** rating on the stock.

#### Exhibit 5: Revision of financial estimates

	Previous		Revised		% chg	
	SY12E	SY13E	SY12E	SY13E	SY12E	SY13E
(₹ crore)						
Net sales	1140.2	1350.0	1220.8	1408.8	7.1	4.4
EBITDA	134.0	169.5	136.8	182.0	2.1	7.4
EBITDA margins (%)	11.8	12.6	11.2	12.9	(54) bps	36 bps
Net profit	65.7	86.4	64.5	95.9	-1.8	11.0
EPS (₹)	43.5	57.1	42.7	63.4	-1.9	11.1

Source: ICICIdirect.com Research

#### Exhibit 6: Valuation table

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
SY10	669.7		29.2		14.4	7.9	21.6	24.5
SY11	1012.5	51.2	38.1	30.3	11.0	5.9	23.6	30.5
SY12E	1220.8	20.6	42.7	12.2	9.8	4.9	22.2	31.5
SY13E	1408.8	15.4	63.4	48.5	6.6	3.6	26.0	35.7

Source: Company, ICICIdirect.com Research

## Financial summary

### Profit and loss statement

	(₹ Crore)			
(Year-end September)	SY10	SY11	SY12E	SY13E
Total operating Income	669.7	1,012.5	1,220.8	1,408.8
Growth (%)	150.6	51.2	20.6	15.4
Raw Material Expenses	473.5	729.5	873.4	977.4
Employee Expenses	40.1	52.6	65.9	77.5
Marketing Expenses	2.7	6.1	8.5	9.9
Administrative Expenses	10.7	18.2	26.2	31.7
Other expenses	0.0	0.0	0.0	0.0
Total Operating Expenditure	581.5	895.9	1,084.0	1,226.8
EBITDA	88.2	116.6	136.8	182.0
Growth (%)	167.8	32.2	17.4	33.0
Depreciation	21.0	23.4	25.9	28.3
Interest	3.6	6.6	9.7	9.9
Other Income	0.0	0.0	0.0	0.0
PBT	65.9	87.2	101.4	143.9
Others	0.0	0.0	0.0	0.0
Total Tax	21.8	29.6	36.9	48.0
PAT	44.1	57.6	64.5	95.9
Growth (%)	355.6	30.6	11.9	48.7
EPS (₹)	29.2	38.1	42.7	63.4

Source: Company, ICICIdirect.com, Research

### Balance Sheet

	(₹ Crore)			
(Year-end September)	SY10	SY11	SY12E	SY13E
<b>Liabilities</b>				
Equity Capital	15.1	15.1	15.1	15.1
Reserve and Surplus	188.7	228.8	275.7	353.9
Total Shareholders funds	203.9	243.9	290.8	369.0
Total Debt	70.7	61.8	61.8	61.8
Deferred Tax Liability	13.5	12.0	12.0	12.0
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	288.1	317.7	364.5	442.8
<b>Assets</b>				
Gross Block	281.4	317.2	347.2	377.2
Less: Acc Depreciation	148.6	171.3	197.2	225.4
Net Block	132.8	145.9	150.0	151.8
Capital WIP	7.9	10.5	10.5	10.5
Total Fixed Assets	140.7	156.4	160.5	162.3
Investments	0.0	0.0	0.0	0.0
Inventory	90.3	110.2	137.3	175.3
Debtors	123.7	191.0	230.8	274.0
Loans and Advances	11.5	22.3	28.9	35.9
Other Current Assets	0.0	0.0	0.0	0.0
Cash	9.0	11.4	20.6	32.7
Total Current Assets	234.5	335.0	417.7	517.9
Creditors	65.0	146.9	180.6	200.7
Provisions	22.1	26.8	33.0	36.7
Total Current Liabilities	87.1	173.7	213.6	237.4
Net Current Assets	147.4	161.3	204.0	280.5
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	288.1	317.7	364.6	442.8

Source: Company, ICICIdirect.com, Research

### Key ratios

	(₹ Crore)			
(Year-end September)	SY10	SY11	SY12E	SY13E
Profit after Tax	44.1	57.6	64.5	95.9
Add: Depreciation	21.0	23.4	25.9	28.3
(Inc)/dec in Current Assets	-88.6	-98.1	-73.5	-88.2
Inc/(dec) in CL and Provisions	23.6	86.6	39.9	23.8
Others	-	-	-	-
CF from operating activities	0.1	69.6	56.8	59.7
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-9.5	-39.1	-30.0	-30.0
Others	-0.6	-1.6	0.0	0.0
CF from investing activities	-10.1	-40.7	-30.0	-30.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	25.3	-8.9	0.0	0.0
Dividend paid & dividend tax	-15.0	-17.6	-17.6	-17.6
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	10.3	-26.4	-17.6	-17.6
Net Cash flow	0.3	2.5	9.2	12.1
Opening Cash	8.7	9.0	11.4	20.6
Closing Cash	9.0	11.4	20.6	32.7

Source: Company, ICICIdirect.com, Research

### Key ratios

(Year-end September)	SY10	SY11	SY12E	SY13E
<b>Per share data (₹)</b>				
EPS	29.2	38.1	42.7	63.4
Cash EPS	43.1	53.6	59.8	82.1
BV	134.8	161.3	192.3	244.1
DPS	8.5	10.0	10.0	10.0
Cash Per Share	5.9	7.6	13.6	21.6
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.2	11.5	11.2	12.9
PBT / Net sales	9.8	8.6	8.3	10.2
PAT Margin	6.6	5.7	5.3	6.8
Inventory days	40.9	36.1	37.0	40.5
Debtor days	67.4	68.9	69.0	71.0
Creditor days	35.4	53.0	54.0	52.0
<b>Return Ratios (%)</b>				
RoE	21.6	23.6	22.2	26.0
RoCE	24.5	30.5	31.5	35.7
RoIC	16.1	20.1	20.5	25.0
<b>Valuation Ratios (x)</b>				
P/E	14.4	11.0	9.8	6.6
EV / EBITDA	7.9	5.9	4.9	3.6
EV / Net Sales	1.0	0.7	0.6	0.5
Market Cap / Sales	0.9	0.6	0.5	0.4
Price to Book Value	3.1	2.6	2.2	1.7
<b>Solvency Ratios</b>				
Debt/EBITDA	0.8	0.5	0.5	0.3
Debt / Equity	0.3	0.3	0.2	0.2
Current Ratio	2.7	1.9	2.0	2.2
Quick Ratio	2.6	1.9	1.9	2.0

Source: Company, ICICIdirect.com, Research

### ICICIdirect.com Research coverage universe (Automotive ancillaries)

					Sales (₹ cr)	EPS (₹)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
<b>Apollo Tyres</b>										
Idirect Code	APOTYR	CMP(₹)	64	FY10	8121.0	13.0	5.4	4.1	33.2	25.1
		Target(₹)	70	FY11	8868.0	8.7	8.0	5.9	18.2	14.4
Mcap (₹cr)	3249	% Upside	8.5	FY12E	11705.8	6.8	10.3	5.7	12.4	13.0
				FY13E	12859.8	10.0	7.0	4.6	15.5	15.6
<b>Automotive Axle</b>										
Idirect Code	AUTAXL	CMP(₹)	419	SY10	669.7	29.2	14.4	7.9	21.6	24.5
		Target(₹)	444	SY11	1012.5	38.1	11.0	5.9	23.6	30.5
Mcap (₹cr)	634	% Upside	5.9	SY12E	1220.8	42.7	9.8	4.9	22.2	31.5
				SY13E	1408.8	63.4	6.6	3.6	26.0	35.7
<b>Balkrishna Industries</b>										
Idirect Code	BALIND	CMP(₹)	174	FY10	1395.0	21.6	8.1	5.1	31.6	27.8
		Target(₹)	195	FY11	2011.9	19.2	9.1	5.7	22.3	19.9
Mcap (₹cr)	841	% Upside	12.2	FY12E	2711.2	27.2	6.4	5.5	24.2	16.1
				FY13E	3144.7	28.3	6.2	4.3	20.3	15.6
<b>Bharat Forge</b>										
Idirect Code	BHAFOR	CMP(₹)	277	FY10	3327.6	-2.8	NA	17.9	NA	NA
		Target(₹)	320	FY11	4894.4	4.1	68.2	10.9	5.3	9.5
Mcap (₹cr)	6438	% Upside	15.6	FY12E	6040.8	16.5	16.7	8.9	16.0	18.4
				FY13E	6957.0	21.8	12.7	6.8	17.0	20.9
<b>JK Tyres</b>										
Idirect Code	JKIND	CMP(₹)	70	FY10	3677.7	39.8	1.8	2.3	23.6	21.5
		Target(₹)	79	FY11	4810.9	14.9	4.7	5.1	8.6	9.1
Mcap (₹cr)	287	% Upside	12.5	FY12E	5545.8	(16.5)	(4.2)	7.5	(10.7)	5.5
				FY13E	6208.9	19.7	3.6	4.1	11.6	12.2
<b>Subros</b>										
Idirect Code	SUBROS	CMP(₹)	24	FY10	906.6	4.7	5.1	3.4	14.4	18.4
		Target(₹)	26	FY11	1091.2	4.8	5.1	4.2	13.1	15.2
Mcap (₹cr)	145	% Upside	8.9	FY12E	1040.3	4.2	5.8	4.4	10.4	11.9
				FY13E	1,182.1	5.8	4.1	3.7	13.1	12.3
<b>Motherson Sumi</b>										
Idirect Code	MOTSUM	CMP(₹)	148	FY10	6702.2	6.5	22.9	12.4	24.9	18.3
		Target(₹)	171	FY11	8175.6	10.1	14.7	8.7	28.5	26.6
Mcap (₹cr)	4327	% Upside	15.7	FY12E	9332.3	6.4	23.1	9.2	15.0	17.1
				FY13E	10547.9	13.5	11.0	6.3	28.4	23.6
<b>Exide Industries</b>										
Idirect Code	EXIIND	CMP(₹)	119	FY10	3794.0	6.3	18.9	11.5	31.0	41.7
		Target(₹)	136	FY11	4575.6	8.1	14.7	11.3	27.7	32.3
Mcap (₹cr)	10149	% Upside	14.2	FY12E	4956.0	5.9	20.2	14.0	17.0	21.1
				FY13E	5736.7	8.4	14.3	9.4	20.6	26.5

Source: Company, ICICIdirect.com Research SY~ September Year end

### Exhibit 7: Recommendation History



Source: Company, ICICIdirect.com Research

### Exhibit 8: Recent Releases

Date	Event	CMP	Target Price	Rating
24-Jan-11	Q1SY11 Result Update	388	437	BUY
8-Apr-11	Q2SY11 Preview	419	437	HOLD
13-Apr-11	Q2SY11 Result Update	420	437	BUY
5-Jul-11	Q3SY11 Preview	424	477	BUY
29-Jul-11	Q3SY11 Result Update	428	487	BUY
5-Oct-11	Q4SY11 Preview	404	487	BUY
30-Nov-11	Q4SY11 Result Update	354	400	BUY
6-Jan-12	Q1SY12 Preview	387	400	HOLD

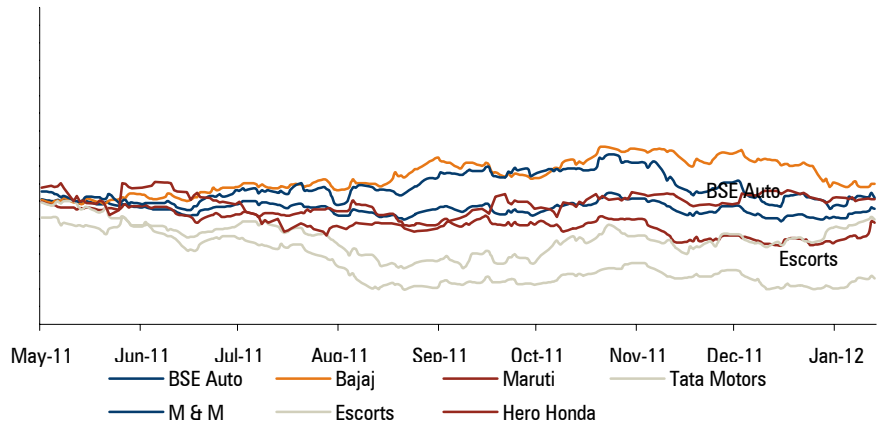
Source: Company, ICICIdirect.com Research

**ICICIdirect.com Universe price movement vis-à-vis BSE Auto index**

The chart compares the movement of OEM stocks in the ICICIdirect.com Universe with the BSE Auto index, thereby reflecting the degree of mimicking of the index

Since January 2011, Bajaj Auto and M&M have outperformed while Maruti Suzuki and Escorts have underperformed in comparison to the index by being divergent on the upside and downside, respectively

**Exhibit 9: OEM comparison with BSE Auto**

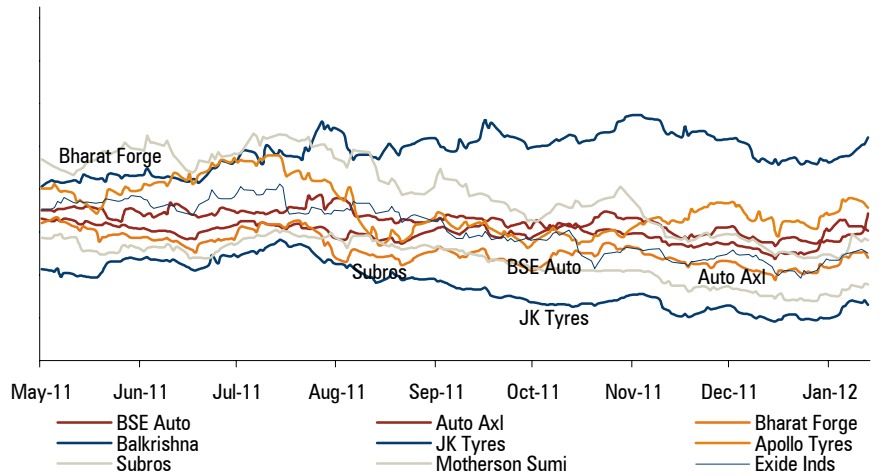


Source: Company, ICICIdirect.com Research

The chart compares the movement of auto ancillary stocks in the ICICIdirect.com universe with the BSE Auto index

The volatile nature of smaller ancillary companies is reflected. These have met with numerous fluctuations with the exception of larger market capitalisation companies like Bharat Forge and Exide Industries, which mimic the index greatly. The tyre companies post November 2010 have grossly underperformed due to the intense rubber price overhang

**Exhibit 10: Ancillaries comparison with BSE Auto**



Source: Company, ICICIdirect.com Research

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ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

**Strong Buy:** > 15%/20% for large caps / midcaps, respectively, with high conviction;

**Buy:** > 10%/ 15% for large caps / midcaps, respectively;

**Hold:** Up to +/-10%;

**Sell:** -10% or more;

**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICIdirect.com Research Desk,  
ICICI Securities Limited,  
1<sup>st</sup> Floor, Akruiti Trade Centre,  
Road No. 7, MIDC  
Andheri (East)  
Mumbai – 400 093**

**research@icicidirect.com**

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