

Automotive Axles Ltd.**₹1532***Driving to the future...!!!***Buy**

Gateway to Prosperity

Apr 27, 2018

Company Background

Automotive Axles manufactures all types of complete axles & axle assemblies including components & corresponding brake sets. It also manufactures automotive gears and air and hydraulic-activated brake assemblies. Promoted as a joint venture by the Kalyani group and Rockwell International Corporation in 1981. It is largest independent manufacturer of Rear Drive Axle Assemblies in India. Also expanded its footprints in North India with its plants at Pantnagar and Jamshedpur. Over the past 30 years, it has successfully been manufacturing reliable & long-life Medium & Heavy duty Drive axles, Front Steer axles, Non-Drive axles, Axles for Defence & Off-Highway applications and Drum & Disc Brakes. Recently it has forayed into manufacturing of Light duty Drive axles. AAL has developed an impressive domestic OEM clientele that includes Ashok Leyland, Tata Motors, Asia Motor Works, Daimler India, Volvo India, SML Isuzu Ltd., Volvo Eicher Commercial Vehicles, Vehicle Factory-Jabalpur, BEML, MAN Trucks Pvt. Ltd., Mahindra Trucks & Buses, CAT, Escorts, TIL and Sonalika. AAL also exports axle parts to USA, France, Italy, China, Brazil and Australia.

Key Highlights

- ➔ For 2016-17 net sales posted by 5.6 % growth at ₹ 11,468.3 mn, operating profit improved by 18.2 % to ₹ 1,142.3 mn and net profit was grown by 39.7 % to ₹ 485.8 mn on yearly basis.
- ➔ It has product portfolio like; Drive Axles, Front Steer Axles, Defence Axles, Off-Highway Axles, Non-Drive Axles, Drum Brake and Disc Brake. Axles are major revenue contributor.
- ➔ Steel, Castings, Forgings and other components are major raw materials for the Axles manufacturing.
- ➔ 2Q of CY it started to open a unit in Mysuru which is a joint venture between the two organisations. The centre is expected to open in mid-2018 and is part of a nearly ₹ 300 cr plan envisaged for investment in India by Meritor.
- ➔ Company also announced that it was ready to provide electrical solutions by way of electric drivetrains for the electrical commercial vehicles poised for production in India in a big way over the next few years.

Key Financials

Year Ended 31 st	Mar 15	Mar 16	Mar 17
Revenue (INR mn)	5,110.1	12,074.2	12,784.8
Rev. growth (%)	(32.56)	136.28	5.89
EBITDA (INR mn)	625.5	379.4	966.2
Net profit (INR mn)	105.4	347.7	485.8
Shares outstanding (mn)	15.1	15.1	15.1
EPS (INR)	13.4	21.9	32.2
EPS growth (%)	15.52	63.36	46.87
P/E (x)	61.74	26.80	22.04
RONW (%)	7.07	11.04	13.82
ROCE (%)	10.95	15.74	20.18

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Info Codes

Reuters	: ATOA.BO
Bloomberg	: ATXL IN
NSE	: AUTOAXLES
BSE	: 505010

Market Data

52 Wk Range (₹)	: 684/1826
Shares in Issue (mn)	: 15.1
Market. Cap (bn)	: 23.14
BSE 2 Wk Avg Vol	: 1732

Share Holding Pattern (%)

Promoters Holding	: 71.04
Public & Others	: 15.45
Corporate Holding	: 00.00
Foreign Institution	: 02.11
Institutions	: 11.40

Investment Theme

Indian auto component industry is expected to grow by 8-10% in FY 2017-18. Domestic market is expected to account for 71 % of total sales by 2021 with a total market size of \$115 bn. Accounts for almost 7 % of India's Gross Domestic Product. This growth will be based on higher localisation in procurements by OEMs, higher component content per vehicle, and rising exports from. Aftermarket is expected to grow at 10.5% to touch \$ 13 bn by 2019-20, as compared to \$ 8.4 bn in 2016-17. Over the last decade, the automotive components industry has registered a CAGR of 14 % and has scaled three times to \$ 43.5 bn in 2016-17 while exports have grown at a CAGR of 14 % to \$ 10.9 bn. It invested ₹ 300 cr to develop new R & D centre, it will cater to the growing needs of its customers in Asia Pacific region.

One of the largest manufacturers of Rear Drive Axle ...!!!

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 15	Mar 16	% Chg	Mar 17	% Chg
Net Sales	4,591.8	10,859.6	136.5	11,468.3	5.6
Other Income	25.3	15.8	(37.5)	19.8	25.3
Change in Stocks	(31.5)	(25.0)	(20.6)	3.6	(114.4)
Raw Material Con.	3,244.4	7,787.7	140.0	8,208.2	5.4
Employee Exp.	369.7	798.2	115.9	823.1	3.1
Indirect Taxes	493.0	1,198.8	143.2	1,296.7	8.2
Other Exp.	99.1	99.5	0.4	21.4	(78.5)
Operating Exp.	4,206.2	9,884.2	135.0	10,349.4	4.7
Operating Profit	379.4	966.2	154.7	1,142.3	18.2
Total Interest	41.4	56.6	36.7	9.1	(83.9)
Gross Profit	338.0	909.6	169.1	1,133.2	24.6
Net Dep.	173.2	394.4	127.7	394.6	0.1
Total Taxation	59.4	167.5	182.0	252.8	50.9
Net Profit/Loss	105.4	347.7	229.9	485.8	39.7

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 14	Mar 15	Mar 16	Mar 17
SOURCES OF FUNDS	3,873.7	3,659.2	3,605.5	3,806.8
Equity Share capital	151.1	151.1	151.1	151.1
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	2,791.3	2,873.2	3,120.9	3,606.7
Secured Loans	296.7	505.0	288.4	0.0
Unsecured Loans	634.6	129.9	45.1	49.0
USES OF FUNDS	3,873.7	3,659.2	3,605.5	3,806.8
Gross Block	4,059.7	4,341.9	4,584.6	4,825.8
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	2,396.5	2,574.3	2,900.7	3,272.1
Net Block	1,663.2	1,767.6	1,683.9	1,553.7
Capital Work in Progress	232.4	168.6	89.1	72.7
Investments	0.0	0.0	0.0	0.0
Current Assets	3,262.3	3,198.0	3,402.0	3,976.5
Less : Current Liabilities	1,267.5	1,437.5	1,587.5	1,840.2
Total Net Current Assets	1,994.8	1,760.5	1,814.5	2,136.3
Misc. Expenses not writtenoff	(16.7)	(37.5)	18.0	44.1
NOTE				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	0.0	0.0	0.0	0.0
Contingent Liabilities	1.8	23.7	0.0	0.0
Dividend (%)	25.0	10.0	55.0	80.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Mar 17	Jun 17	Sep 17	Dec 17
Net Sales	3,510.9	2,927.3	3,496.4	4,079.3
Cost Of Sales	3,148.6	2,643.6	3,103.9	3,638.4
Operating Profit	362.3	283.7	392.5	440.9
Other Income	3.1	12.1	16.1	14.5
Adjusted PBDIT	365.4	295.8	408.6	455.4
Financial Expenses	1.6	1.3	1.2	1.3
Depreciation	103.9	99.0	97.9	116.3
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	259.9	195.5	309.5	337.8
Tax Charges	87.2	66.5	105.1	114.8
Reported Profit	172.7	129.0	204.4	223.0
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	172.7	129.0	204.4	223.0

52 Week Index Relative Percentage Appreciation

Automotive Axles vs SENSEX
Risks Associated

- Indian auto component industry is highly fragmented, represented by higher number of unorganised manufacturing units in the sector than organised manufacturing units.
- Increasing investments in R&D also assists companies in setting up laboratories, new facilities to conduct analysis, simulation & engineering animations. Cheaper imports of components from China is increasing negative for domestic industry.

Scope of Growth

- Supreme Court of India had mandated the BS-IV emission norms for all the production and sale of vehicles effective April 1, 2017. The significant shift to BS-IV norms would mandate change of engine technology from mechanical to electro-mechanical.
- Government of India, plans to introduce a new Green Urban Transport Scheme with a central assistance of about \$ 3.75 bn. It will boosting the growth of urban transport along low carbon path for reduction in pollution.
- Government wants to promote eco-friendly cars in the country such as CNG based vehicle, hybrid vehicle and electric vehicle. In addition, Gol has made it mandatory to blend 5% ethanol in petrol.
- In India a cost-effective manufacturing base keeps costs lower by 10-25 % relative to operations in Europe & Latin America.
- Engine parts accounts for 31 % of the entire product range of the auto components sector followed by drive transmission & steering parts 19 %.
- By the year 2030, the Government wants India to be 100%, electric vehicle nation.

Automotive Axles

In a Nutshell

Automotive Axles manufactures axles and axle assemblies including components and corresponding brake sets. Company is currently largest independent manufacturer of Rear Drive Axle Assemblies in India. It has also expanded its footprints in North India with its plants at Pantnagar & Jamshedpur. Over the past 30 years, it has successfully been manufacturing; Drive Axles, Front Steer Axles, Defence Axles, Off-Highway Axles, Non-Drive Axles, Axles for Defence & Off-Highway applications and Drum & Disc Brakes. It has good clients includes Ashok Leyland, Tata Motors, Asia Motor Works, Daimler India, Volvo India, SML Isuzu Ltd., Volvo Eicher Commercial Vehicles, Vehicle Factory-Jabalpur, BEML, MAN Trucks Pvt. Ltd., Mahindra Trucks & Buses, CAT, Escorts, TIL and Sonalika. Also exports axle parts to USA, France, Italy, China, Brazil and Australia, but export revenue is very minor. It has opened a unit in Mysuru a joint venture organisation to cater needs of its customers in Asia Pacific region. With an investment of ₹ 300 cr, it will open in mid 2018. For 2017 Sales & Other Income was ₹ 11,488.17 mn as against ₹ 10,875.44 mn for 2016. PBT was ₹ 738.6 mn and PAT was ₹ 485.79 mn for the FY 2017 as against ₹ 515.24 mn and ₹ 347.74 mn respectively for the year 2016. For FY 2017 company has recommend a dividend of ₹ 8 per equity share. FDI Investments in the auto components sector reached \$ 372.44 mn in 2016-17. Nearly 16 companies are going to set up auto component units in Andhra Pradesh with an investment of \$ 737 mn. AMP 2026 targets a 4-fold growth in the automobiles sector in India which includes the manufacturers of automobiles, auto components & tractor industry over the next 10 years.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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