Automotive Axle (AUTAXL)

RESULT UPDATE √

Current Price	Target Price
Rs 95	Rs 49
Potential upside	Time Frame
-46%	12 months

UNDERPERFORMER

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WHAT'S CHANGED…

PRICE TARGET………………………………………Changed to Rs 49 from Rs 114
EPS (FY09E)………………………………………Changed to Rs 4.7 from Rs30.2
EPS (FY10E)………………………………………Changed to Rs12.2 from Rs38.1
RATING………………………………………Unchanged

Bumpy ride on bone breaking journey…

The slowdown in the commercial vehicles (CVs) segment witnessed in the country has negatively surprised us with Automotive Axle's (AAL) sales plummeting 71.5% in Q1FY09 to Rs 49.7 crore as against our expectation of Rs 140 crore (Rs 174.5 crore in Q1FY08). A gloomy overseas market could fetch only Rs 7.6 crore revenues from exports as against Rs 30.8 crore last year. The improvement in the raw material to sales ratio by 280 basis points (bps) has been muted by the rise in staff and other operational expenses to sales ratio, which surged 740 bps and 380 bps, respectively, on account of poor sales. The EBITDA margin reported a sharp decline of 840 bps to 7.2% while net profit declined 99.5% to Rs 0.07 crore against Rs 14.6 crore.

Outlook

The management is maintaining its silence on the outlook of the business in the current scenario of economic downturn. Thus, we do not have clarity on the future growth and earnings visibility of AAL. The demand slowdown followed by temporary plant shut downs exercised by OEMs provides a bleak outlook for the CV industry going forth. We expect sales to de-grow 9-10% in FY09 for the segment and around 8% in FY10E. Revival of the overseas market would also take time. We expect a subdued overseas market to worsen the export business of the industry in general and AAL, in particular. We are revising our financial estimates downward (Refer Financial revision).

Valuations

At the CMP of Rs 95, the stock is trading at 20.2x and Rs 7.8 x its FY09E and FY10E EPS of Rs 4.7 and Rs 12.2, respectively. Though the stock is trading below its book value (FY08) of Rs 112, the bleak business outlook compels us to reiterate our **UNDERPERFORMER** rating. We are further downgrading our target price from Rs 114 to Rs 49. (Refer detailed valuations)

Stock data

Mcap	143.6
Debt (FY08)	72.1
Cash (FY08)	19.2
EV	215.7
52 week H/L(Rs)	640 / 81
Equity cap	15.1
Face value (Rs)	10.0
MF Holding(%)	11.1
FII Holding(%)	0.6

* Values in Rs crore

Price performance

	Returns(%)			
	1M	3M	6M	12M
AUTAXL	-15.1	-43.5	-58.4	-80.7

Exhibit 1: Key Financials* Rs crore

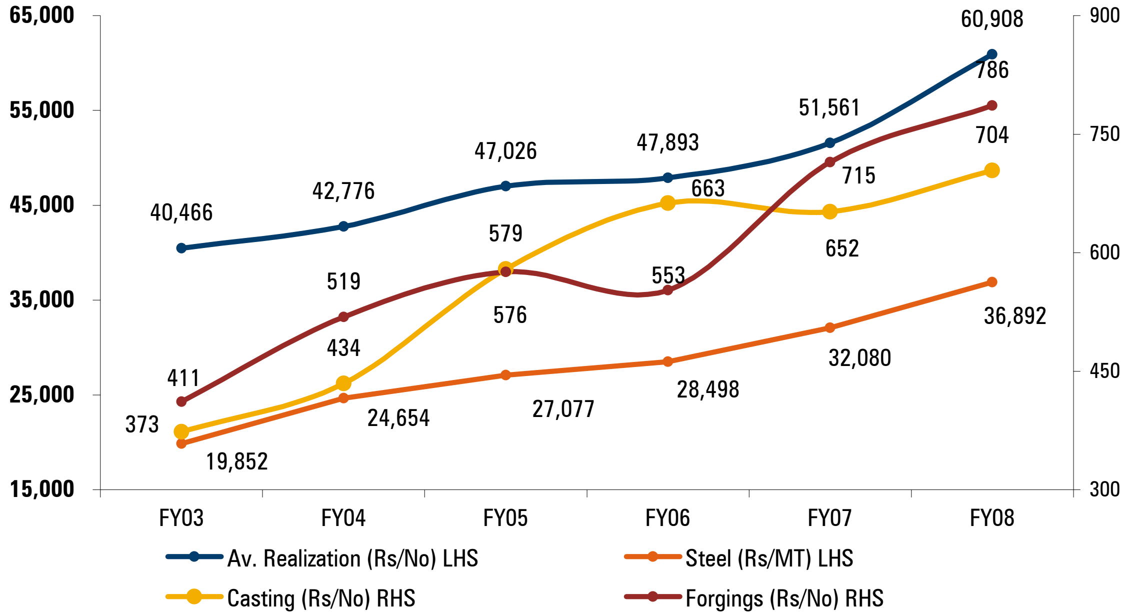
	Q1FY09A	Q1FY09E	Q1FY08	Q4FY08	YoY Gr.(%)	QoQ Gr.(%)	FY09E	FY10E
Net sales	49.7	140.0	174.5	137.0	-71.5	-63.7	550.5	659.6
EBIDTA	3.6	18.9	27.2	18.5	-86.8	-80.6	35.2	49.2
EBIDTA margin (%)	7.2	13.5	15.6	13.5	-	-	6.4	7.5
Depreciation	4.8	5.7	4.7	5.7	2.2	-15.2	22.6	23.7
Interest	1.3	1.2	1.8	1.2	-25.4	13.6	7.1	2.6
Other inc/extraord item	0.1	0.3	0.4	0.2	-71.1	-45.2	4.0	4.0
Reported net profit	0.1	7.7	14.6	7.4	-99.5	-99.1	7.1	18.4
EPS (Rs)	0.0	5.1	9.7	4.9	-99.5	-99.1	4.7	12.2
Valuations								
PE (x)	-	-	-	-	-	-	20.2	7.8
Target PE (x)	-	-	-	-	-	-	10.4	4.0
EV/EBIDTA (x)	-	-	-	-	-	-	2.3	1.2
Price/book (x)	-	-	-	-	-	-	0.8	0.8
RoNW (%)	-	-	-	-	-	-	4.1	10.1
RoCE (%)	-	-	-	-	-	-	5.6	9.0

*Source: ICICIdirect.com Research, *YE Sept 30*

Key points

- The production capacity of the company for manufacturing complete axles is 168,000 units per annum. Capacity utilisation was at 65%. The company was planning to increase its capacity to 200,000 units. However, in the current scenario, we believe the company would not go for the same.
- AAL's major supplies are to Ashok Leyland, Tata Motors, Eicher Motors, Swaraj Mazda and Arvin Meritor Inc, US. The plant shutdown and de-growth witnessed by these companies in the near past provides a sluggish demand outlook, which would further result in lower capacity utilisation for the current year. We have assumed the same to be at 50% resulting into lower revenues.
- The higher raw material prices resulted into higher realisation as the company has passed on the rise to its customers in the past. Due to this we have seen average realisations increasing from Rs 51,560 per unit in FY07 to ~Rs 61,000 per unit in FY08. However, now raw material prices have started softening. Due to this the company would need to revise its product prices to comparatively lower levels, resulting in decline of the average realisation. Thus, there would be volume de-growth as well as lower realisation, substantially impacting the EBITDA margin of the company for the current year.

Exhibit 2: Cost push realisation



Source: Company

- The stimulus package announced by the government is likely to revive demand for CVs. However, the improvement in lending from financial institutions is the key trigger for demand. Thus, it would be best to carefully monitor the actual recovery and its rate. One of the other regulations, which can revive CV sales, is the compulsory discarding of vehicles with an average age of more than 15 years. However, in the current situation of a slowing economy, tight cash positions of financial institutions and the upcoming elections, we do not see such regulations coming from the government.

Financial revision

Backed by negative sentiments for the sector and the poor performance demonstrated by the company for Q1FY09, we are compelled to revise our sales and profit estimates downward substantially. We are, thus, revising our net sales from Rs 814.8 crore and Rs 936.4 crore in FY09E and FY10E to Rs 550.5 crore and Rs 659.6 crore, respectively. Accordingly, net profit for the period would change from Rs 45.6 crore and Rs 57.6 crore to Rs 7.1 crore and Rs 18.4 crore, respectively.

Detailed Valuations

Dismal performance of the company for Q1FY09 and subdued demand outlook for the sector does not give us comfort on the earnings growth of the company, going forward. After substantially revising the earning estimates downward, the stock at the CMP of Rs 95 is trading at 20.2x and Rs 7.8 x its FY09E and FY10E EPS of Rs 4.7 and Rs 12.2, respectively. Though the stock is trading below its book value (FY08) of Rs 112, the bleak business outlook compels us to reiterate our **UNDERPERFORMER** rating. We are further downgrading our target price from Rs 114 to Rs 49.

Exhibit 3: Valuations

	Sales (Rs cr)	EPS (Rs)	PE (x)	EV/E (x)	RoNW (%)	RoCE (%)
FY08	727.9	51.2	1.9	1.4	52.4	52.5
FY09E	550.5	4.7	20.2	2.3	4.1	5.6
FY10E	659.6	12.2	7.8	1.2	10.1	9.0

Source: ICICIdirect.com Research, EV/E signifies EV/EBITDA

ICICIdirect.com Coverage Universe

Exhibit 4: Universe matrix

Bajaj Auto					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BAAUTO	**CMP**	472	**FY08**	8,828.6	48.1	9.8	5.7	19.5	22.9
		Target	450	**FY09E**	9,975.6	49.6	9.5	5.1	39.3	36.4
Mcap (Rs cr)	6,828.9	**% Upside**	-4.7	**FY10E**	11,131.6	56.3	8.4	4.3	34.8	37.6
				FY11E	12,472.1	64.8	7.3	3.4	31.5	39.8

Escorts					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	ESCORT	**CMP**	36	**FY08**	2,177.9	9.7	3.7	5.3	1.3	6.2
		Target	-	**FY09E**	2,126.8	2.6	14.0	5.2	2.9	5.3
Mcap (Rs cr)	303.8	**% Upside**	-	**FY10E**	2,398.1	4.2	8.5	4.0	4.6	6.5

Apollo Tyres					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	APOTYR	**CMP**	18	**FY08**	3,693.9	4.5	4.0	2.8	20.0	24.4
		Target	17	**FY09E**	3,911.3	1.4	13.2	4.7	5.5	8.8
Mcap (Rs cr)	879.3	**% Upside**	-5.6	**FY10E**	4,334.2	1.6	11.6	4.1	5.9	8.8

Automotive Axle					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	AUTAXL	**CMP**	95	**FY08**	727.9	51.2	1.9	1.4	52.4	52.5
		Target	49	**FY09E**	550.5	4.7	20.2	2.3	4.1	5.6
Mcap (Rs cr)	143.6	**% Upside**	-48.4	**FY10E**	659.6	12.2	7.8	1.2	10.1	9.0

Balkrishna Industries					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BALIND	**CMP**	163	**FY08**	991.4	54.6	3.0	4.8	28.2	23.9
		Target	185	**FY09E**	1,175.4	35.6	4.6	4.8	15.6	14.7
Mcap (Rs cr)	315.1	**% Upside**	13.5	**FY10E**	1,309.1	46.2	3.5	4.1	17.5	14.6

Bharat Forge					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	BHAFOR	**CMP**	73	**FY08**	2,196.5	12.2	6.0	5.5	19.6	18.8
		Target	87	**FY09E**	2,406.2	3.3	21.9	4.8	4.9	16.0
Mcap (Rs cr)	1,625.7	**% Upside**	19.2	**FY10E**	2,729.6	8.5	8.6	3.8	11.8	17.1

JK Tyres					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	JKIND	**CMP**	35	**FY08**	3,263.7	23.7	1.5	4.3	13.3	13.1
		Target	43	**FY09E**	3,623.2	9.5	3.7	5.2	4.7	8.5
Mcap (Rs cr)	143.7	**% Upside**	22.9	**FY10E**	4,065.0	14.4	2.4	5.2	6.7	9.6

Subros					Sales (Rs cr)	EPS (Rs)	PE(x)	EV/E (x)	RoNW (%)	RoCE (%)
Idirect Code	SUBROS	**CMP**	16	**FY08**	662.6	4.8	3.4	2.5	17.6	20.1
		Target	17	**FY09E**	619.3	4.1	3.9	2.3	13.4	16.6
Mcap (Rs cr)	96.0	**% Upside**	6.25	**FY10E**	653.9	4.5	3.6	1.9	13.1	16.0

Source: ICICIdirect.com Research, EV/E signifies EV/EBITDA

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