

### Focus on Product Diversification & New Share of Businesses

**Est. Vs. Actual for Q3FY25:** Revenue – **INLINE**; EBITDA – **INLINE**; PAT– **BEAT**

#### Change in Estimates post Q3FY25

**FY25E/FY26E:** Revenue: 1%/0.4%; **EBITDA:** 0.7%/0.6%; **PAT:** 2.3%/-0.5%

#### Recommendation Rationale

- **Industry Outlook:** We expect the M-HCV market volumes to marginally decline YoY in FY25 (~400,000 MHCV volumes). As per the management, Q4FY25E is expected to perform better sequentially with ~1,10,000 MHCV units (largely flat YoY). For FY26E, we expect low single-digit growth in the MHCV segment.
- **Long-term growth drivers:** (1) Product diversification to new bus axles (expect axles for 13.5/15 mt buses to begin commercial production by FY26E post final trials by the end-user OEMs) (2) electric vehicle (EV) axles (3) Increased export share post plant modernising (expect parent Meritor to play a vital role). (4) Expansion of the aftermarket business.
- **EBITDA Margins:** Based on the above growth outlook, we expect the company's long-term EBITDA margin to reach 12-13% by FY28/29E, an increase from the current 10-11%. The company will primarily drive this by taking initiatives in Lean Manufacturing, Cost Optimization, and supplier consolidation.

**Company Outlook & Guidance:** Based on strategic long-term growth drivers, the company aims to double its top-line revenue and achieve a CAGR of 14-15% over FY24-29. This expansion is expected to lead to higher revenues and a gradual improvement in EBITDA margins, driven by more efficient resource utilisation.

**Current Valuation:** 17x FY27 EPS (unchanged)

**Current TP:** Rs 1,975/ share (unchanged)

**Recommendation:** We maintain a **BUY** rating with a 13% upside potential.

#### Financial Performance:

Automotive Axles Q3FY25 revenue (inline) remained largely flat YoY but increased by 7% QoQ. EBITDA (inline) came in at Rs 57.5 Cr, flat YoY but up 12% QoQ, primarily driven by lower other expenses, partially offset by higher estimated personnel costs. PAT stood at Rs 39.6 Cr, flat YoY and up 10% QoQ, beating estimates by 5%, largely due to higher non-operating income and lower-than-estimated depreciation.

**Outlook:** The CV industry has experienced higher tonnage growth over the last two years despite production volumes remaining below the peaks of FY19. Looking ahead, we anticipate marginal growth in the goods carrier segment in FY25E due to the high base of FY24, while the passenger carrier CV segment is expected to achieve high single-digit growth. We forecast an EBITDA CAGR of 3% for FY24-27E, supported by new product launches and cost control efforts, assuming similar commodity price levels.

**Valuation & Recommendation:** The near-term outlook for the CV industry remains cautious; however, increased government infrastructure spending is expected to benefit the sector in the long term. As a proxy to the MHCV industry, we see limited downside risk for AutoAxles at the current market price. Therefore, we maintain a BUY rating at 17x FY27 EPS (unchanged) with a target price of Rs 1,975 per share, implying a 13% upside from CMP.

#### Key Financials (Consolidated)

| (Rs Cr)       | Q3FY25 | QoQ (%) | YoY (%) | Axis Est. | Variance |
|---------------|--------|---------|---------|-----------|----------|
| Net Sales     | 530.7  | 7%      | -2%     | 519.4     | 2%       |
| EBITDA        | 57.5   | 12%     | -1%     | 57.1      | 1%       |
| EBITDA Margin | 10.8%  | 50      | 14      | 11.0%     | -17      |
| Net Profit    | 39.6   | 10%     | 1%      | 37.7      | 5%       |
| EPS (Rs)      | 26.2   | 10%     | 1%      | 24.9      | 5%       |

Source: Company, Axis Securities Research

(CMP as of 6<sup>th</sup> February 2025)

|                            |           |
|----------------------------|-----------|
| CMP (Rs)                   | 1,753     |
| Upside /Downside (%)       | 13%       |
| High/Low (Rs)              | 2210/1657 |
| Market cap (Cr)            | 2,649     |
| Avg. daily vol. (6m) Shrs. | 9,440     |
| No. of shares (Cr)         | 1.51      |

#### Shareholding (%)

|           | Jun-24 | Sep-24 | Dec-24 |
|-----------|--------|--------|--------|
| Promoter  | 71.0   | 71.0   | 71.0   |
| FII's     | 0.6    | 0.6    | 0.6    |
| MFs/UTI   | 11.5   | 12.6   | 12.9   |
| Banks/FIs | 0.0    | 0.0    | 0.0    |
| Others    | 16.9   | 15.7   | 15.5   |

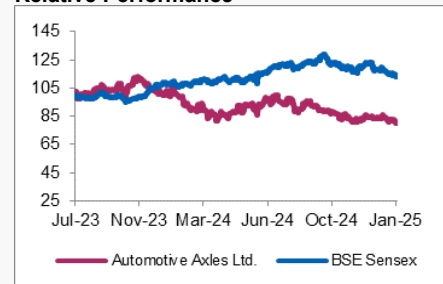
#### Financial & Valuations

| Y/E Mar    | FY25E | FY26E | FY27E |
|------------|-------|-------|-------|
| Net Sales  | 2,073 | 2,212 | 2,350 |
| EBITDA     | 218   | 243   | 258   |
| Net Profit | 147   | 156   | 175   |
| EPS (Rs.)  | 98.3  | 103.6 | 116.2 |
| PER (x)    | 18.5  | 17.4  | 15.5  |
| EV/ EBITDA | 11.7  | 10.2  | 9.3   |
| P/BV       | 2.8   | 2.5   | 2.3   |
| ROE (%)    | 15.5  | 14.8  | 15.1  |

#### Change in Estimates (%)

| Y/E Mar | FY25E | FY26E | FY27E |
|---------|-------|-------|-------|
| Sales   | 1.0%  | 0.4%  | 0.4%  |
| EBITDA  | 0.7%  | 0.6%  | 0.2%  |
| PAT     | 2.3%  | -0.5% | -0.4% |

#### Relative Performance



Source: AceEquity, AxisSecurities Research.

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## Key Concall Highlights

- **Capex:** The company has planned a capex of Rs 200-300 Cr over the next three years, with Rs 70 Cr already approved by the board. The annual capex allocation is expected to increase to approximately 3% of revenue, up from the current 1.5% of annual sales. This increase will support modernisation initiatives, systems upgrades, the adoption of Industry 4.0 and lean manufacturing technology, cost optimisation initiatives, and efforts to modernise and upgrade the 42-year-old plant.
- **Utilisation:** The company's current capacity is 65-70%. Management stated that the focus remains on optimising production efficiency and increasing output to meet future demand. Utilisation levels can be scaled up to 80-85% over the medium term to maximise profitability.
- **Hosur Plant:** The Hosur plant (leased, not owned) transitioned from a production facility to a VMI (Vendor Managed Inventory) warehousing unit. In Q3FY25, operations at the Hosur facility were moved to a warehouse closer to customer base locations following the shutdown of the unit. Smaller assembly operations at this plant were also discontinued, with minimal impact on business operations. Additionally, cost optimisation initiatives under "Mission 25" were implemented throughout the Hosur facility.
- **Exports:** The company is actively expanding its export market through increased capacity, modernisation, and a strong product pipeline. Management aims to leverage Meritor's global scale for export expansion and potential customer acquisitions. The focus remains on heavy-duty axles, an enhanced aftermarket strategy, and diversification, including potential opportunities in the EV bus segment for sub-assemblies like front axles with new OEMs.

## Key Risks to Our Estimates and TP

- Higher-than-expected MHCV volume uptake by fleet operators/replacement demand.
- Macroeconomic headwinds.

## Change in Estimates

|          | Revised |       |       | Old   |       |       | % Change |       |       |
|----------|---------|-------|-------|-------|-------|-------|----------|-------|-------|
|          | FY25E   | FY26E | FY27E | FY25E | FY26E | FY27E | FY25E    | FY26E | FY27E |
| Revenues | 2,073   | 2,212 | 2,350 | 2,053 | 2,204 | 2,341 | 1.0%     | 0.4%  | 0.4%  |
| EBITDA   | 218     | 243   | 258   | 217   | 242   | 258   | 0.7%     | 0.6%  | 0.2%  |
| PAT      | 147     | 156   | 175   | 144   | 157   | 176   | 2.3%     | -0.5% | -0.4% |

Source: Company, Axis Securities Research

**Q3FY25 Results Review**

| Consolidated (Rs Cr)                     | Q3FY24       | Q2FY25       | Axis Estimates | Q3FY25       | % Change (YoY) | % Change (QoQ) | % Variance |
|--|--------------|--------------|----------------|--------------|----------------|----------------|------------|
| <b>Sales</b>                             | <b>541.3</b> | <b>494.7</b> | <b>519.4</b>   | <b>530.7</b> | <b>-2%</b>     | <b>7%</b>      | <b>2%</b>  |
| <b>Expenditure</b>                       |              |              |                |              |                |                |            |
| Net Raw Material                         | 383.8        | 349.1        | 368.8          | 379.1        | -1%            | 9%             | 3%         |
| Personnel                                | 34.3         | 34.3         | 31.2           | 34.6         | 1%             | 1%             | 11%        |
| Other Exp                                | 65.3         | 60.2         | 62.3           | 59.6         | -9%            | -1%            | -4%        |
| <b>Total Expenditure</b>                 | <b>483.4</b> | <b>443.6</b> | <b>462.2</b>   | <b>473.3</b> | <b>-2%</b>     | <b>7%</b>      | <b>2%</b>  |
| <b>EBIDTA</b>                            | <b>57.9</b>  | <b>51.1</b>  | <b>57.1</b>    | <b>57.5</b>  | <b>-1%</b>     | <b>12%</b>     | <b>1%</b>  |
| <b>EBITDA Margin</b>                     | <b>10.7%</b> | <b>10.3%</b> | <b>11.0%</b>   | <b>10.8%</b> | <b>14</b>      | <b>50</b>      | <b>-17</b> |
| Non-operating Income                     | 4.3          | 6.1          | 4.0            | 6.0          | 41%            | -1%            | 51%        |
| Interest                                 | 0.6          | 0.8          | 0.5            | 0.7          | 14%            | -17%           | 27%        |
| Depreciation                             | 9.0          | 7.9          | 9.8            | 8.8          | -2%            | 12%            | -10%       |
| Exceptional Item                         | 0.0          | 0.0          | 0.0            | 0.0          | 0%             | 0%             | 0%         |
| <b>PBT</b>                               | <b>52.6</b>  | <b>48.5</b>  | <b>50.8</b>    | <b>54.0</b>  | <b>3%</b>      | <b>11%</b>     | <b>6%</b>  |
| Tax                                      | 13.5         | 12.5         | 13.1           | 14.4         | 7%             | 15%            | 10%        |
| <b>PAT</b>                               | <b>39.1</b>  | <b>36.0</b>  | <b>37.7</b>    | <b>39.6</b>  | <b>1%</b>      | <b>10%</b>     | <b>5%</b>  |
| Oth. Comprehensive Income (net of taxes) | -0.2         | -0.4         | -0.1           | -0.4         | Na             | Na             | Na         |
| Total Comprehensive Income               | 39.0         | 35.6         | 37.6           | 39.2         | 1%             | 10%            | 4%         |
| <b>EPS (Rs.)</b>                         | <b>25.9</b>  | <b>23.8</b>  | <b>24.9</b>    | <b>26.2</b>  | <b>1%</b>      | <b>10%</b>     | <b>5%</b>  |
| Gross profit margin (%)                  | 29.10%       | 29.43%       | 29.00%         | 28.58%       | -52            | -85            | -42        |
| Personnel cost as a % of sales           | 6.3%         | 6.9%         | 6.0%           | 6.5%         | 18             | -41            | 52         |
| Other exp as a % of sales                | 12.1%        | 12.2%        | 12.0%          | 11.2%        | -83            | -94            | -77        |
| Net RM cost as a % of sales              | 70.9%        | 70.6%        | 71.0%          | 71.4%        | 52             | 85             | 42         |
| Net profit margin %                      | 7.23%        | 7.27%        | 7.02%          | 7.46%        | 23             | 19             | 44         |

Source: Company, Axis Securities research

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

| Y/E March                  | FY24         | FY25E        | FY26E        | FY27E        |
|----------------------------|--------------|--------------|--------------|--------------|
| <b>Net sales</b>           | <b>2,229</b> | <b>2,073</b> | <b>2,212</b> | <b>2,350</b> |
| Other operating income     | 0            | 0            | 0            | 0            |
| <b>Total income</b>        | <b>2,229</b> | <b>2,073</b> | <b>2,212</b> | <b>2,350</b> |
| Cost of goods sold         | 1,904        | 1,780        | 1,889        | 2,007        |
| Contribution (%)           | 14.6%        | 14.1%        | 14.6%        | 14.6%        |
| Advt/Sales/Distrn O/H      | 78.9         | 74.0         | 79.6         | 84.6         |
| <b>Operating Profit</b>    | <b>246</b>   | <b>218</b>   | <b>243</b>   | <b>258</b>   |
| Other income               | 16           | 22           | 18           | 25           |
| <b>PBIDT</b>               | <b>262</b>   | <b>241</b>   | <b>262</b>   | <b>283</b>   |
| Depreciation               | 36           | 36           | 47           | 43           |
| Interest & Fin Chg.        | 3            | 3            | 2            | 1            |
| E/o income / (Expense)     | 0            | 0            | 0            | 0            |
| <b>Pre-tax profit</b>      | <b>223</b>   | <b>202</b>   | <b>213</b>   | <b>239</b>   |
| Tax provision              | 57           | 53           | 56           | 63           |
| (-) Minority Interests     | 0            | 0            | 0            | 0            |
| Associates                 | 0            | 0            | 0            | 0            |
| Other Comprehensive Income | -1.2         | -1.3         | -0.4         | -0.4         |
| <b>Adjusted PAT</b>        | <b>165</b>   | <b>147</b>   | <b>156</b>   | <b>175</b>   |
| <b>Reported PAT</b>        | <b>165</b>   | <b>147</b>   | <b>156</b>   | <b>175</b>   |

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

| Y/E March               | FY24       | FY25E      | FY26E        | FY27E        |
|-------------------------|------------|------------|--------------|--------------|
| <b>Total assets</b>     | <b>903</b> | <b>999</b> | <b>1,091</b> | <b>1,203</b> |
| Net Block               | 200.8      | 200.6      | 198.6        | 200.2        |
| CWIP                    | 5.7        | 9.7        | 14.7         | 19.7         |
| Investments             | 16.3       | 16.3       | 16.3         | 16.3         |
| Wkg. cap. (excl cash)   | 597        | 598        | 619          | 640          |
| Cash / Bank balance     | 83.3       | 174.9      | 243.0        | 326.4        |
| Misc. Assets            | 0.0        | 0.0        | 0.0          | 0.0          |
| <b>Capital employed</b> | <b>903</b> | <b>999</b> | <b>1,091</b> | <b>1,203</b> |
| Equity capital          | 15.1       | 15.1       | 15.1         | 15.1         |
| Reserves                | 861        | 961        | 1,057        | 1,172        |
| Pref. Share Capital     | 0.0        | 0.0        | 0.0          | 0.0          |
| Minority Interests      | 0.0        | 0.0        | 0.0          | 0.0          |
| Borrowings              | 27         | 23         | 19           | 15           |
| DefTax Liabilities      | 0.0        | 0.0        | 0.0          | 0.0          |

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

| Y/E March               | FY24       | FY25E      | FY26E      | FY27E      |
|-------------------------|------------|------------|------------|------------|
| <b>Sources</b>          | <b>159</b> | <b>132</b> | <b>139</b> | <b>155</b> |
| Cash profit             | 205        | 188        | 205        | 220        |
| (-) Dividends           | 48         | 48         | 60         | 60         |
| Retained earnings       | 157        | 139        | 145        | 160        |
| Issue of equity         | 0.0        | 0.0        | 0.0        | 0.0        |
| Change in Oth. Reserves | 0.0        | 0.0        | 0.0        | 0.0        |
| Borrowings              | (5.1)      | (4.0)      | (4.0)      | (4.0)      |
| Others                  | 7.3        | (2.8)      | (1.6)      | (1.1)      |
| <b>Applications</b>     | <b>159</b> | <b>132</b> | <b>139</b> | <b>155</b> |
| Capital expenditure     | 27.3       | 40.0       | 50.0       | 50.0       |
| Investments             | 0.2        | 0.0        | 0.0        | 0.0        |
| Net current assets      | 94.8       | 0.7        | 21.2       | 21.2       |
| Change in cash          | 36.8       | 91.7       | 68.0       | 83.4       |

Source: Company, Axis Securities

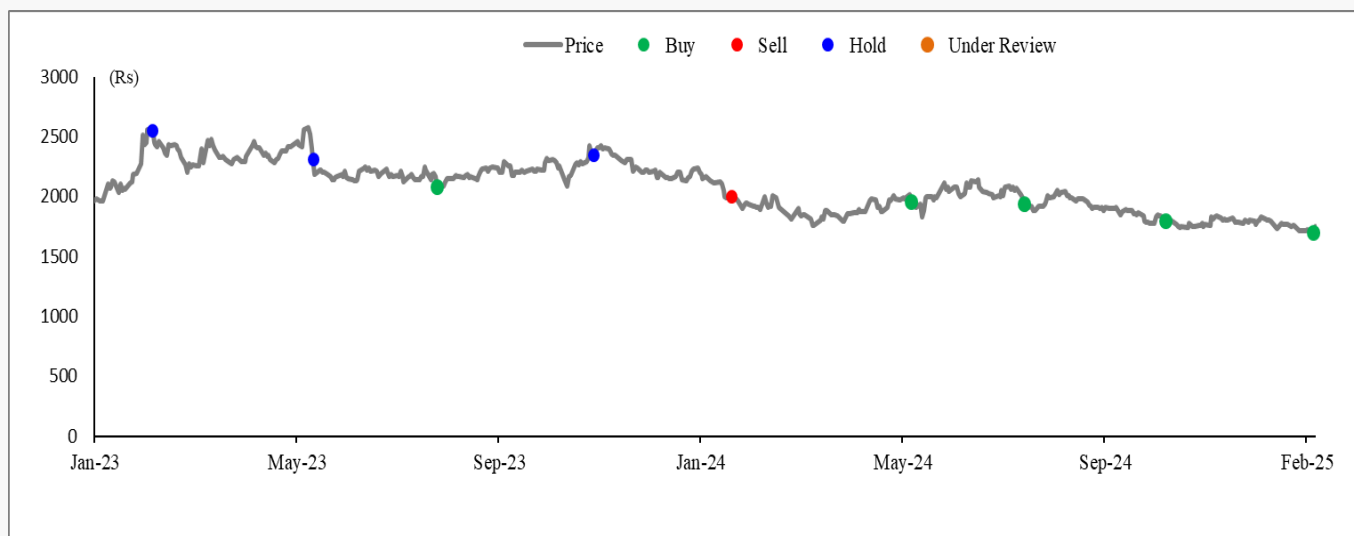
**Ratio Analysis**

(%)

| Y/E March                | FY24         | FY25E       | FY26E        | FY27E        |
|--------------------------|--------------|-------------|--------------|--------------|
| Sales growth %           | <b>-4.1</b>  | <b>-7.0</b> | <b>6.7</b>   | <b>6.2</b>   |
| OPM                      | <b>11.0</b>  | <b>10.5</b> | <b>11.0</b>  | <b>11.0</b>  |
| Oper. profit growth      | -4.3         | -11.3       | 11.4         | 6.2          |
| COGS / Net sales         | 85.4         | 85.9        | 85.4         | 85.4         |
| Overheads/Net sales      | 3.5          | 3.6         | 3.6          | 3.6          |
| Depreciation / G. block  | 7.6          | 7.0         | 8.4          | 7.2          |
| Effective interest rate  | 10.6         | 14.5        | 10.5         | 10.0         |
| Net kg.cap / Net sales   | 0.23         | 0.27        | 0.26         | 0.25         |
| Net sales / Gr block (x) | 4.6          | 4.0         | 3.9          | 3.9          |
| RoCE                     | <b>26.8</b>  | <b>21.6</b> | <b>20.6</b>  | <b>21.0</b>  |
| Debt/equity (x)          | 0.02         | 0.02        | 0.01         | 0.01         |
| Effective tax rate       | 25.5         | 26.4        | 26.4         | 26.4         |
| RoE                      | <b>19.6</b>  | <b>15.5</b> | <b>14.8</b>  | <b>15.1</b>  |
| Payout ratio (Div/NP)    | 29.3         | 32.8        | 38.7         | 34.5         |
| <b>EPS (Rs.)</b>         | <b>110.0</b> | <b>98.3</b> | <b>103.6</b> | <b>116.2</b> |
| EPS Growth %             | 2.5          | (10.6)      | 5.4          | 12.2         |
| CEPS (Rs.)               | 133.2        | 121.4       | 134.5        | 144.6        |
| DPS (Rs.)                | 32.0         | 32.0        | 40.0         | 40.0         |

Source: Company, Axis Securities Research

## Automotive Axles Price Chart and Recommendation History



| Date      | Reco | TP    | Research      |
|-----------|------|-------|---------------|
| 07-Feb-23 | HOLD | 2,690 | Result Update |
| 19-May-23 | HOLD | 2,550 | Result Update |
| 07-Aug-23 | BUY  | 2,300 | Result Update |
| 11-Nov-23 | HOLD | 2,400 | Result Update |
| 06-Feb-24 | SELL | 1,800 | Result Update |
| 29-May-24 | BUY  | 2,175 | Result Update |
| 08-Aug-24 | BUY  | 2,210 | Result Update |
| 05-Nov-24 | BUY  | 1,981 | Result Update |
| 07-Feb-25 | BUY  | 1,975 | Result Update |
|           |      |       |               |

Source: Axis Securities Research

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| <b>Ratings</b> | <b>Expected absolute returns over 12 – 18 months</b>   |
|----------------|--|
| BUY            | More than 10%  |
| HOLD           | Between 10% and -10%   |
| SELL           | Less than -10%   |
| NOT RATED      | We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation. |
| UNDER REVIEW   | We will revisit our recommendation, valuation and estimates on the stock following recent events             |
| NO STANCE      | We do not have any forward-looking estimates, valuation or recommendation for the stock                      |

Note: Returns stated in the rating scale are our internal benchmark.