

Automotive Axles Limited

GROWTH AND SUSTAINABILITY Through Axle Engineering



ACCUMULATE



Automotive Axles Limited (AAL)

Company Background

Automotive Axles Limited (AAL) is incorporated on April 21, 1981 and headquartered in Mysuru, Karnataka is an India-based company, which is primarily engaged in manufacturing of axles and brakes. Its product portfolio includes a wide range of axles catering to haulage trucks, tippers, tractor trailers and other off highway vehicles used for special purposes. The company also supplies drum and disc brake assemblies for trucks, trailers, buses and coaches and is the second largest brake manufacturer in India after Brakes India Private Limited. With manufacturing plants at Mysore, Pantnagar, Jamshedpur and Hosur, the company supplies its components to customers across India as well as in International markets. The Company is a joint venture between BF Investment Limited, an investment holding company with investments in various Kalyani Group companies, and Meritor Inc., USA, a leading supplier of axles for CVs.

Outlook and Valuation

AAL is currently the largest independent manufacturer of rear drive axle assemblies for CVs (primarily M&HCVs) in India. AAL has continuous focus on working capital improvement and inventory optimization and continuous focus on revenue improvement, new product development, operational excellence & cost optimization as part of Industry 4.0 Strategy. AAL has embarked on Industry 4.0 strategy which focusses on growing revenues, enhance profitability, new business wins, operational excellence and customer value and is on track to achieve the stated goals. We are positive on AAL given the tangible efforts it is taking on increasing its content/vehicle, wallet share with existing clients and targeting new segments such as construction equipment, defense, etc.

We expect the company's revenue to grow at a CAGR of 7.52% over FY23-FY26E. Hence, we recommend Automotive Axles Limited with a target price of Rs 2,906 based on FY26E EPS of Rs 157.07 with a forward PE Valuation multiple of 18.5; it looks value BUY with growth potential at current levels. Hence, we recommend **ACCUMULATE** rating for the long term.

Financial Snapshot (Consolidated):

Particulars (Rs. in Mn.)	FY23	FY24E	FY25E	FY26E	CAGR % (FY23-FY26E)
Sales	23,237.01	24,875.22	26,740.86	28,880.13	7.52%
EBITDA	2,574.63	2,830.80	3,107.29	3,485.83	10.63%
EBITDA Margin (%)	11.08%	11.38%	11.62%	12.07%	
PAT	1,620.29	1,825.96	2,036.59	2,373.44	13.57%
PAT Margin (%)	6.97%	7.34%	7.62%	8.22%	
Diluted EPS (Rs.)	107.23	120.84	134.77	157.07	

Source: Company, ACMIIL Retail Research

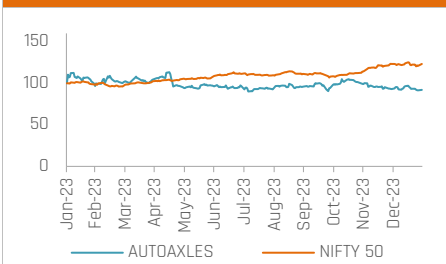
Key Data

DATE	02-05-2024
CMP (Rs.)	1,965.00
Target	2,906
Sector	Auto Ancillaries
BSE Code	505010
NSE Code	AUTOAXLES
EPS (FY23)	107.23
Face Value (Rs.)	10.00
Market Cap (Mn)	32,118.60
52-week High/Low (Rs)	2,693.20/2,040.00

Shareholding pattern (Dec-2023)

	%
Promoters	71.04
DII's	11.96
FII's	0.62
Public	16.38
Total	100.00

Price Performance



Rebase to 100

Retail Research

E: retailresearch@acm.co.in
D: +91 22 2858 3206

Company Overview

Automotive Axles Limited (AAL) is a prominent player in the automotive industry, specializing in the manufacturing of rear-drive axle assemblies, air brakes, and hydraulic brakes for commercial vehicles. With manufacturing facilities located at Mysore, the company is currently one of the largest independent manufacturers of Rear Drive Axle Assemblies in the country. With more than 30 years of axle producing experience and advanced gearing technology from Meritor HVS (India) Ltd, it has been manufacturing reliable & long-life Light, Medium & Heavy duty Drive axles, Front Steer axles, Non-Drive axles, axles for Defence & Off-Highway applications and Drum & Disc Brakes. The Marketing & Field Service Support is provided by Meritor HVS (India) Ltd.

Automotive Axles Limited (AAL) Partners

Meritor HVS (India) Limited

Meritor HVS (India) Limited (MHVSIL) is a joint venture company promoted by Meritor Heavy Vehicle Systems LLC, Troy, U.S.A., (51% shareholding) and the Kalyani Group, Pune (49% shareholding). MHVSIL is located in Mysore, Karnataka. MHVSIL is engaged in design, development and marketing of drive axles, non-drive steer axles, military & specialty axles, drum brake and air disc brake assemblies for commercial vehicles. MHVSIL is equipped with design validation capabilities and has been customizing various products of Meritor design to suit various rigorous application requirements in India.

Bangalore Technical Centre (BTC)

The BTC is a wholly owned subsidiary of Meritor Inc. The state-of-the-art facility focuses on product engineering, product benchmarking, prototyping, validation & testing, aftermarket engineering and metallurgy & metrology services. The BTC is involved in product innovations jointly with other Meritor global technical centers across the globe. The BTC has submitted approximately 20 patent applications, and 50 percent of these applications have been awarded patents in North America and Europe.

The technical capability covers all stages of product design and development from concept to validation for axles and brakes of commercial vehicles. Using a multitude of CAD & FEA tools and skills under one roof, the BTC offers support to Meritor's other technical centers globally. The BTC's capabilities also help Meritor meet the needs of global customers operating on different CAD platforms. It also houses supplier development and global purchasing, supporting Meritor's global locations. This center is certified under ISO/TS 16949-2009 quality systems and follows global project planning processes for project execution. In terms of headcount, the BTC is one of the largest of all Meritor global technical centers. Current strength is around 120 engineers - most of them are qualified in specific fields.

Impressive Domestic & International OEM Clientele



Source: Company, ACMIIL Retail Research

Diversified End Market Reach



Source: Company, ACMIIL Retail Research

ESG Initiatives



Source: Company, ACMIIL Retail Research

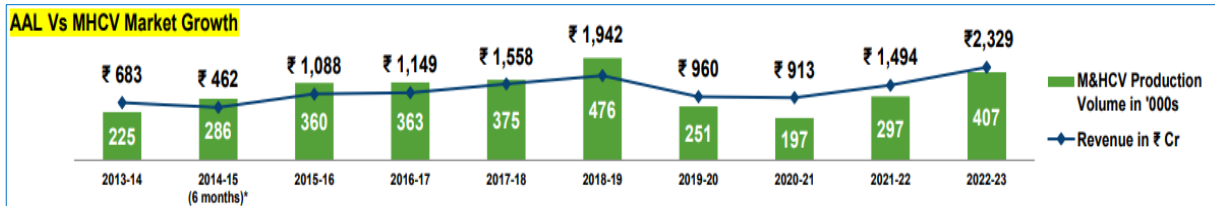
Investment Rationale

Market Dominance and Growth Strategies: AAL's Leadership in Axles and Brakes

AAL holds a dominant position in the product segments it serves, standing as the market leader among independent axle manufacturers and the second-largest player in brakes. The company boasts an estimated market share of approximately 35% in both axles and brakes. The Company has been steadily increasing its market share in the axle and brakes segment through strategic new product launches and successful business acquisitions. With the growing demand for the M&HCV (Medium and Heavy Commercial Vehicle) segment, AAL is poised to be a standout beneficiary. The company's flagship axle, the 10X, is a fixed axle designed for loads ranging from 10X to 150 tons, specifically catering to the extra-heavy vehicle category, typically weighing between 55 tons and 60 tons.

Improvement in MHCV sales to drive higher demand

Domestic CV sales are rebounding, reflecting improving macro factors and increased economic activity. Higher cargo movement, driven by economic recovery, and fleet operators' replacement demand are anticipated to boost CV sales in the coming years. A government task force outlined Rs. 111 lakh crore capital investment plan for infrastructure under the National Infrastructure Pipeline (NIP) through FY25E, with a focus on energy, roads, urban development, and railways. The Prime Minister's Gati Shakti Infrastructure Plan which has built with an aim to create an integrated framework for nationwide infrastructure development, enhancing the utilization of investments from both the government and private players. Further, the anticipated rise in demand for MHCV is driven by the dual forces of infrastructure development, including improved road networks and major connectivity projects, and the expanding logistics sector, fueled by e-commerce growth and supply chain optimization.



Source: Company, ACMIIL Retail Research

Scrapage policy will boost demand for CVs

Government funded vehicle scrappage policy was launched in Aug'21 to replace old vehicles with modern and new vehicles on Indian roads. According to the new policy, commercial vehicles aged >15 years and passenger vehicles aged >20 years will have to be mandatorily scrapped if they do not pass the fitness and emission tests. The policy does not treat a vehicle as scrap just because of its age, but considers other factors such as quality of brakes, engine performance and others. The objective is to phase out old cars, reduce urban pollution levels and stimulate automotive sales. Additionally, the vehicle scrappage policy is also said to be a part of a larger stimulus package majorly requested by OEMs to stir their demand.

The policy will likely result in the following projected gains:

- 30% boost for the Indian automobile industry, from the current US\$ 61.46bn turnover to US\$ 136.59bn over the coming years.
- Export component of US\$ 19.81bn in the current turnover is likely to go up to US\$ 40.98bn.
- Decrease India's huge US\$ 136.59bn crude import bill with adoption of EV Mobility
- Attract new investments of US\$ 1.37bn and create as many as 35,000 jobs.

Capitalizing on MHCV Upswing

The Company remains well-positioned to benefit from the CV upcycle. Moving forward, we expect the company to continue outperforming the industry, supported by the increasing share of business with customers, focus on exports, and indirect beneficiaries to customers (OEMs) gaining respective market share. On a near to the medium-term horizon, we believe AAL will be a key beneficiary of rising demand in the M&HCV segment considering its products such as Rear wheel Axles, Brakes, and Suspensions that cater to the spectrum of load-carrying capacity across M&HCVs for marquee customers such as Ashok Leyland, Tata Motors, Daimler Benz, Volvo Eicher, and Caterpillar, among others.

Strong parentage and client base

AAL is a joint venture of Arvin Meritor Inc., USA (formerly the automotive division of Rockwell International Corporation). Products manufactured at AAL are based on technology provided by Arvin Meritor Inc., USA, through Meritor HVS (India) Ltd. and more than 90% of the sales are routed through Meritor HVS. AAL's domestic OEM customers include Ashok Leyland, Daimler India, Man Trucks, Mahindra & Mahindra, Tata Motors, Volvo Eicher, Asia Motor Works and Indian Army, among others. AAL also exports its products indirectly through Meritor HVS India Ltd. to various countries including the US, France, Italy, China and Brazil. Ashok Leyland is the largest customer of AAL accounting for over 50% of revenues.

At the parent level, Cummins Inc. has acquired Meritor Inc. valuing Meritor Inc. at US\$3.7 billion. Cummins Inc. is now expected to be the new co-promoter in AAL. Cummins will provide synergy to AAL through advanced technology support and innovative product development.

New Product Development in Pipeline

With the help of Cummins' (and Meritor) superior technical know-how, the company is focused on developing industry-first products to have a competitive edge. It has introduced a Tandem axle for 8x4 Tippers (DCDL Optional) and, a Solo HR Axle for backhoe & loader. It is focusing on upgrading existing products that are lightweight, fuel efficient, have higher life durability and meet the demand of regional players.



Source: Company, ACMIIL Retail Research

AC Cabin Trucks: A New Stepping Stone towards a safer, more efficient, and environmental friendly industry

The Minister of Road Transport & Highways (MoRTH), Shri Nitin Gadkari, has recently announced his ministry's plan to introduce a mandate by 2025, requiring air-conditioned (AC) cabins for trucks. This upcoming mandate is anticipated to bring about a revolutionary transformation in the trucking industry. It will enhance driver's comfort, addressing the physical and mental toll of long journeys, particularly in extreme weather. The controlled environment promotes alertness, contributing to highway safety. Additionally, AC cabins positively impact drivers' health, reducing risks of dehydration and fatigue. Overall, these mandates prioritize driver well-being, boost productivity, and align with environmental sustainability, marking a crucial step towards a safer, more efficient, and environmentally conscious trucking industry.

This is likely to boost the trucking industry, presenting a growth opportunity for auto axle companies. This regulatory shift is expected to drive increased demand for commercial vehicles, leading to a surge in sales for auto axle manufacturers like AAL. Companies offering innovative and efficient axle solutions that align with the evolving specifications of AC-equipped trucks stand to benefit the most. This regulatory change not only creates new sales opportunities but also emphasizes the importance of adapting products to meet evolving industry standards.

Opportunities for Auto Axle Manufacturers in the Shift to Electric Buses

In a strategic move to address pollution caused by diesel buses, Union Transport Minister Shri Nitin Gadkari has announced the government's ambitious plan to replace 800,000 diesel buses with electric counterparts. This initiative is expected to be a significant boon for auto axle manufacturers, positioning them favorably in the growing market for electric vehicles. Adapting to the changing landscape of public transportation will open up new opportunities for innovation. This transition to electric buses creates a demand for specialized axles tailored to the unique requirements of electric vehicles. Auto axle manufacturers can seize this opportunity to innovate and cater to the growing market for electric public transportation, aligning with the government's focus on environmental sustainability and the promotion of the EV sector.

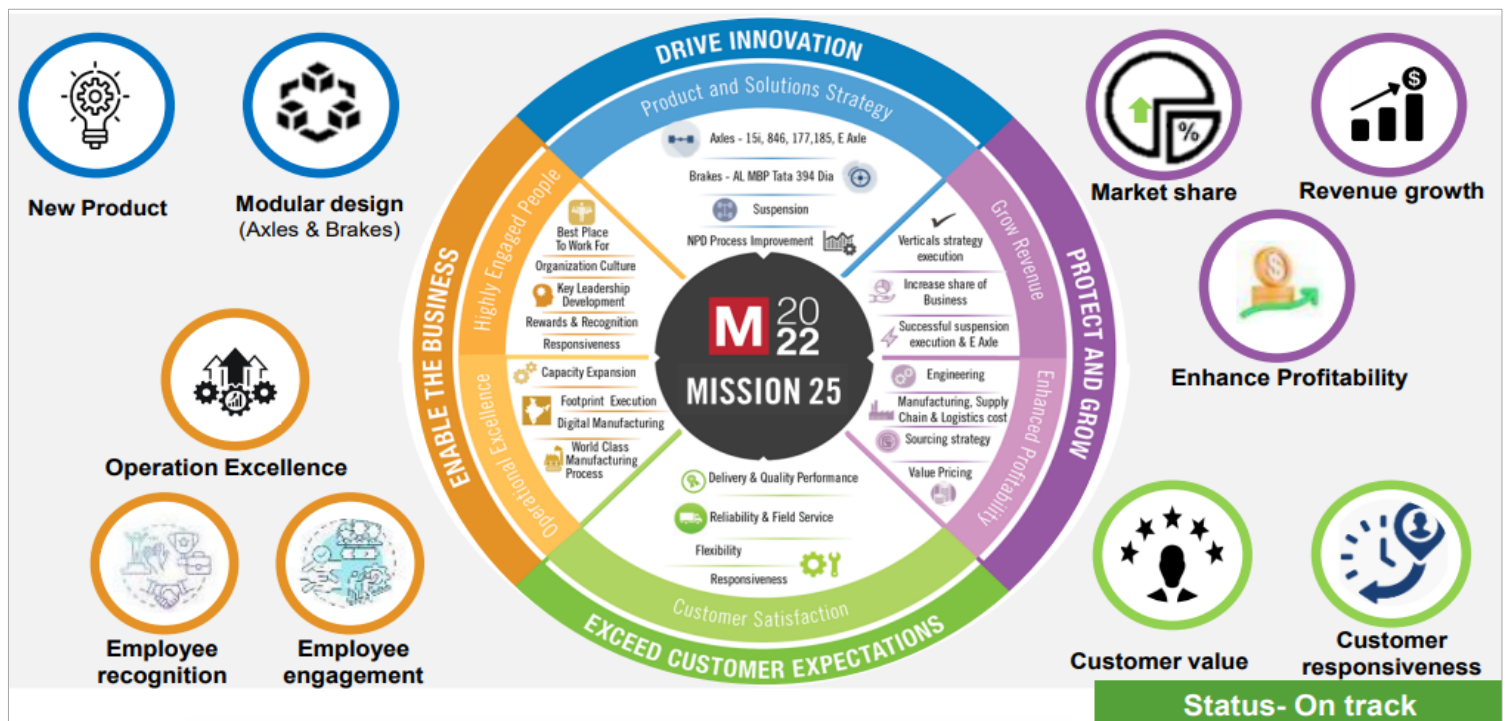
Diversification and Market Expansion: Bolstering Growth and Stability in CV Industry

The company is increasing its presence in the market for both axles and brakes. By doing so, it expects to see growth in the on-engine segment. Additionally, the company anticipates that the growth in areas like the aftermarket, exports, and off-road sectors will play a crucial role in reducing the impact of market fluctuations commonly found in the commercial vehicle industry. Overall, the company's strategy involves diversifying and expanding its market share to achieve more stable and sustainable growth.

Additional Key Growth Drivers

- AAL is focusing on developing new products and expanding market share in both the independent axle and brake segments.
- For past three to four years, the government expenditure on public transportation has been substantial. A significant number of bus orders are being placed, indicating that AAL to continue to thrive in coming years.
- Company is manufacturing axles that can meet any type of fuel, including battery-operated electric vehicles, hydrogen fuel cells, LPG, and LNG.
- The company has invested in testing facilities to validate and launch new products quickly.
- AAL continues to focus on "Destination Zero," aiming for 80% of its power consumption to be derived from renewable energy. Presently, the company has already achieved 40% of its energy requirements from renewable sources.
- It is working on agility and operational excellence to meet customer demand and capture market opportunities.
- Automotive Axles aims to become the largest commercial vehicle brakes manufacturer by 2026-2027.
- The company is also focusing on new products, exports, and off-highway segments to drive growth and mitigate cyclicality.
- AAL is working with OEMs and fleet operators to introduce the MSM-185 product.
- It is focused on product development and cost reduction through global integration and best practices.
- The company's Mission 2025 strategy includes increasing reliability and upgrading products while containing costs.

Growth Strategy



Source: Company, ACMIIL Retail Research

Industry Overview

India's automobile sector has bounced back and demonstrated strong growth in FY 2022-23. The global semiconductor situation is improving, leading to positive sentiment in the sector. To address the growing demand, most OEMs are investing heavily in various segments of the industry in recent times. The domestic auto components industry is also growing at a steady pace. The Indian automobile sector is one of the largest industries in the country and it plays a significant role in the Indian economy. During the year under review, India became the third-largest automobile market, surpassing Japan as vehicle sales rose on the back of easing semiconductor issues and a strong demand rebound during the festival season.

The industry experienced a healthy upswing in FY 2022-23, supported by a recovery in economic activity and increased mobility. Demand sentiment for most automotive segments i.e. passenger cars, commercial vehicles and tractors, has remained healthy, resulting in improved sales for industry players. The commercial vehicle (CV) segment has been growing strongly eventually crossing the FY19 peak. This has been aided by increased infra spends by the government, healthy replacement demand, last-mile connectivity demand propelling e-commerce and increased industrial activity. Profitability and margins of major commercial vehicle OEMs have also been aided by the uptick in volumes, improved product mix and benefits of commodity price correction. The rapidly globalizing world is creating newer opportunities for the transportation industry, especially while shifting towards electric and hybrid cars which are deemed more efficient, safe and reliable modes of transportation. Over the next decade this will lead to newer verticals and opportunities for auto component manufacturers. To help them adjust to the shifting dynamics of the automobile sector, the Indian government has already offered various production incentives. India is also investing heavily in electric car infrastructure.

The Indian automobile industry is expected to grow at a CAGR of 8.1% in the coming years to reach a value of \$160 billion in 2027. The Ministry of Heavy Industries has announced the extension of the tenure of the Production Linked Incentive (PLI) Scheme for Automobile and Auto Components by one year. Under the amended scheme, the incentive will be applicable for a total of five consecutive financial years, starting from the financial year 2023-24.

Automobile Production Trends

Category	(In Numbers)					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Passenger Vehicles	4,020,267	4,028,471	3,424,564	30,62,280	36,50,698	45,78,639
Commercial Vehicles	895,448	1,112,405	756,725	6,24,939	8,05,527	10,35,626
Three Wheelers	1022,181	1,268,833	1,132,982	6,14,613	7,58,669	8,55,696
Two Wheelers	23,154,838	24,499,777	21,032,927	18,349,941	1,78,21,111	1,94,59,009
Total	2,90,92,734	3,09,09,486	2,63,47,198	2,26,51,773	2,30,36,005	2,59,28,970

Source: Company, ACMIIL Retail Research

Automobile Domestic Sales Trends

Category	(In Numbers)					
	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23
Passenger Vehicles	32,88,581	33,77,389	27,73,519	27,11,457	30,69,523	38,90,114
Commercial Vehicles	8,56,916	10,07,311	7,17,593	5,68,559	7,16,566	9,62,468
Three Wheelers	6,35,698	7,01,005	6,37,065	2,19,446	2,61,385	4,88,768
Two Wheelers	2,02,00,117	2,11,79,847	1,74,16,432	1,51,20,783	1,35,70,008	1,58,62,087
Total	2,49,81,312	2,62,65,552	2,15,44,609	1,86,20,245	1,76,17,482	2,12,03,437

Source: Company, ACMIIL Retail Research

Story in Charts (Values in Mn.)

Exhibit 1: Sales Growth %

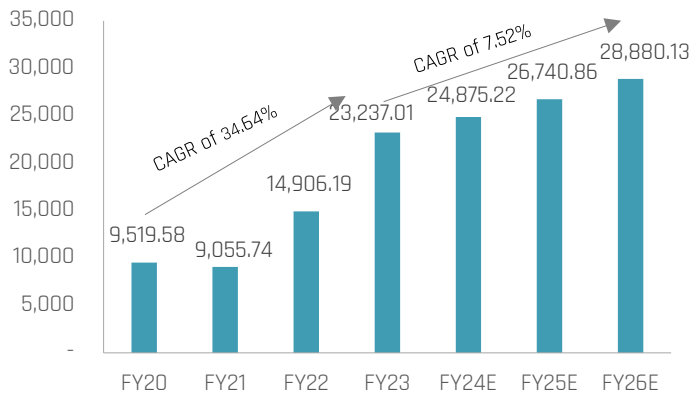


Exhibit 2: EBITDA & EBITDA Margin %

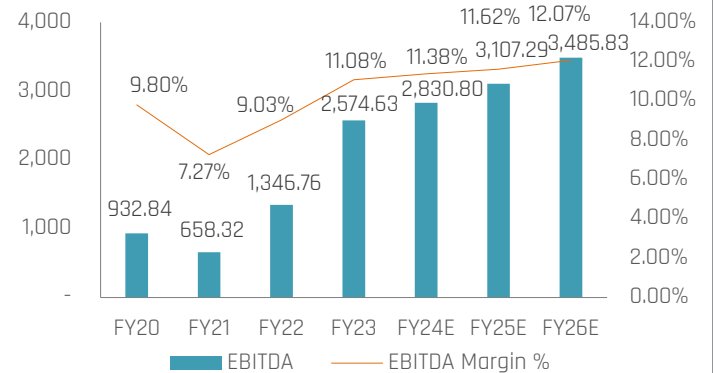


Exhibit 3: PAT & PAT Margin %

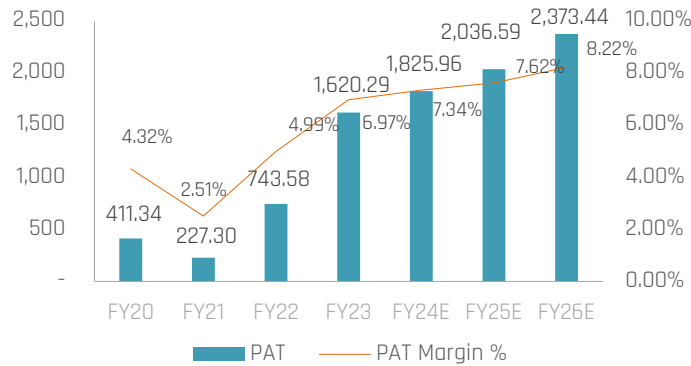
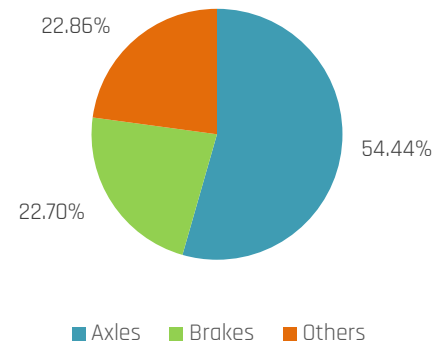


Exhibit 4: Segment Breakup



Source: Company, ACMIIL Retail Research

Financial Statements

Consolidated Profit & Loss Statement:

Particulars (Rs. in Mn)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	9,519.58	9,055.74	14,906.19	23,237.01	24,875.22	26,740.86	28,880.13
Total Expenses	8,586.74	8,397.42	13,559.43	20,662.38	22,044.42	23,633.57	25,394.30
EBITDA	932.84	658.32	1,346.76	2,574.63	2,830.80	3,107.29	3,485.83
EBITDA Margin %	9.80%	7.27%	9.03%	11.08%	11.38%	11.62%	12.07%
Other Income	77.23	70.74	42.59	49.19	60.20	62.15	64.05
Depreciation	372.22	360.03	364.18	413.72	426.24	421.78	350.00
Interest	18.07	29.69	24.67	29.15	30.15	32.20	35.30
PBT Before Exceptional Items	619.78	339.34	1,000.50	2,180.95	2,434.61	2,715.46	3,164.58
PBT After Exceptional Items	599.54	301.65	1,000.50	2,180.95	2,434.61	2,715.46	3,164.58
Tax	188.20	74.35	256.92	560.66	608.65	678.86	791.15
PAT	411.34	227.30	743.58	1,620.29	1,825.96	2,036.59	2,373.44
PAT Margin %	4.32%	2.51%	4.99%	6.97%	7.34%	7.62%	8.22%
Diluted EPS (Rs.)	27.22	15.04	49.21	107.23	120.84	134.77	157.07

Source: Company, ACMIIL Retail Research

Risks and concerns

- Geo-political instability and supply chain disruptions may affect company's business.
- Economic slowdown may affect business and growth of the company.
- The growing cost of key raw materials may impact revenues and net profitability of the organization.

ACMIIL Retail Research Products

Informational Products	Recommendation Products
Morning Notes	Momentum calls
Market Watch	Smart Delivery trades
Investor First	Positional technical calls
Preview	Investment ideas
Market Pulse	Master trades High & Medium Risk
RBI Monetary Policy	Techno Funda
Budget Report	Stock Basket
Weekly Derivatives Synopsis	Mutual fund model portfolios
Rollover Snapshot	Portfolio Doctor
Rollover Analysis (Monthly)	

For More Information on Retail Research Products please visit
<https://www.investmentz.com/research-services>

Asit C. Mehta

INVESTMENT INTERMEDIATES LTD.

Retail Research Desk:

Devang Shah E: devang.shah@acm.co.in
 Neeraj Sharma E: neeraj.sharma@acm.co.in
 Hrishikesh Yedve E: hrishikesh.yedve@acm.co.in
 Ruchi Jain E: ruchi.jain@acm.co.in
 Kamlesh Jain E: kamlesh.jain@acm.co.in

Email: retailresearch@acm.co.in

Research Analyst Registration Number:

INH000002483

CIN: U65990MH1993PLC075388

Download Investmentz app:



Follow us on:



Information pertaining to Asit C. Mehta Investment Intermediates Limited (ACMIIL):

ACMIIL is a SEBI registered Stock Broker, Merchant Banker, Portfolio Manager, Research Analyst and Depository Participant. It is also a AMFI registered Mutual Fund Distributor. Its associate/group companies are Asit C. Mehta Commodity Services Limited, Nucleus IT Enabled Services, and Asit C. Mehta Financial Services Limited (all providing services other than stock broking, merchant banking and portfolio management services.).

Disclosures

ACMIIL/its associates and its Research analysts have no financial interest in the companies covered on the report. ACMIIL/its associates and Research analysts did not have actual/beneficial ownership of one per cent or more in the companies being covered at the end of month immediately preceding the date of publication of the research report. ACMIIL/its associates or Research analysts have no material conflict of interest, have not received any compensation/benefits for any reason (including investment banking/ merchant banking or brokerage services) from either the companies concerned/third parties with respect to the companies covered in the past 12 months. ACMIIL/its associates and research analysts have neither managed or co-managed any public offering of securities of the companies covered nor engaged in market making activity for the companies being covered. Further, the companies covered neither are/nor were a client during the 12 months preceding the date of the research report. Further, the Research analyst/s covering the companies covered herein have not served as an officer/director or employee of the companies being covered

Disclaimer:

This report is based on information that we consider reliable, but we do not represent that it is accurate or complete and it should not be relied upon such. ACMIIL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in the report. To enhance transparency we have incorporated a Disclosure of Interest Statement in this document. This should however not be treated as endorsement of the views expressed in the report.

You are also requested to refer to the disclaimer (which is deemed to be part and parcel and is applicable to this research report as well) : <http://www.investmentz.com/disclaimer>