

**CMP: INR 558**

**Rating: Accumulate**

**Target Price: INR 649**

**Stock Info**

BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR mn)	192
Mkt Cap (INR mn)	22,560
52w H/L (INR)	603/ 248
Avg Yearly Vol (in 000')	77

**Shareholding Pattern %**

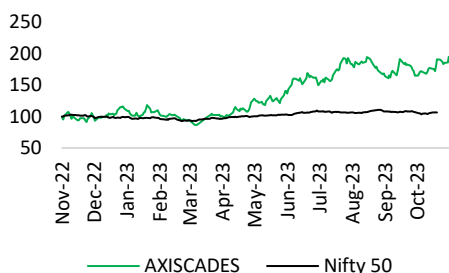
(As on Sept, 2023)

Promoters	65.74
Public & Others	34.26

**Stock Performance (%)**

	1m	3m	12m
AxisCades	14.6	60.3	317
Nifty	1.18	7.0	11.6

**Axiscades Vs Nifty**



Abhishek Jain  
abhishek.jain@arihantcapital.com  
022 67114851

Jyoti Singh  
jyoti.singh@arihantcapital.com  
022 67114834

**AXISCADES Technologies reported a decent set of numbers in Q2FY24:** Reported revenue of INR 2,515 Mn (Up 17.7% QoQ/ up 29.8% YoY) above our estimate of INR 2298 Mn by an increase in Automotive, PES, Energy and Defence vertical.

**Adjusted EBITDA Margin expansion driven by improvement in operating metrics:** Adjusted EBITDA margin contraction by 118bps QoQ/ +179bps YoY at 14.2% against our estimate of 16.6% led by an increase in operating income. The material cost has increased +51.8% QoQ/+78.9% YoY and stood at INR 601 Mn mainly due to an increase in production orders in Mistral and an increase in employee expenses on account of annual increments and investments in building competencies in Embedded and Digital for future growth.

**PAT growth led by higher service revenue:** The company reported a consolidated PAT of INR 112 Mn grew by 98.1% QoQ/-47% YoY against our estimate of INR 141 Mn. (in Q2FY23 Normalized PAT INR 130 Mn as compared to Q2FY24 de-grew by -13.8% YoY) this is led by AXISCADES Aerospace & Technologies Pvt Ltd (ACAT) had booked higher service revenue, with an EBITDA margin of 41%. Increase in finance cost due to debt funding for Mistral acquisition (re-financed in Q1 FY24, at lower cost). Muted performance in the HEG segment attributable to lower offtake & and delayed/deferred client projects. Revenue from Products and Solutions has grown by 47.0% Yo-Y, boosted by the production orders of our existing Design wins. Offshore improved 40bps to 77%.

**Completed acquisition of ADD Solution:** Completed the acquisition of add solution in Germany and commenced consolidating the financial results of add solution from the 1st of August this year. With this acquisition, the company has acquired niche automotive capabilities and vendor codes of large German OEMs and Tier 1s, which will fuel the company's expansion in the automotive sector. Going forward, automotive and energy verticals will constitute significant portions of the revenue with synergies from Add Solution and EPCOGEN.

**Outlook & Valuation**

AXISCADES Technologies reported a decent performance in Q2FY24 primarily due addition of new clients and good growth in most of the segment. With a margin target of 18% in the near term, AXISCADES is harnessing ADD Solution expertise to bolster its market presence in the automotive sector. The company is experiencing robust growth with strategic clients, expanding into new areas, bidding for new projects, anticipating strong growth in the automotive sector through existing clients and additional solutions, with a well-established pipeline poised to drive further expansion. **We value the stock on a P/E (x) multiple of 29x to its FY26E EPS INR 21.6, which yields a target price of INR 628 per share (Earlier target price of INR 569 per share). We maintain our Accumulate rating on the stock.**

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	6,103	8,216	9,437	10,840	12,454
EBITDA	706	1,456	1,482	1,789	2,092
EBITDA Margin	11.57%	17.72%	15.70%	16.50%	16.80%
PAT	227	-48	437	629	821
EPS	5.9	-1.4	11.5	16.6	21.6
PE	95.2	-407.3	48.4	33.6	25.8

Source: Arihant Research, Company Filings

**Exhibit 2: Q2FY24 - Quarterly Performance (Consolidated)**

Particulars (INR Mn)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	30.60	26.20	24.30	16.8%	25.9%
Revenue	2,515	2,136	1,937	17.7%	29.8%
Other operating Income	10	10	21	0.0%	-52.4%
Other Income	11	17	42	-35.5%	-73.8%
<b>Total Revenue</b>	<b>2,536</b>	<b>2,163</b>	<b>2,000</b>	<b>17.2%</b>	<b>26.8%</b>
Cost of Material consumed	601	396	336	51.8%	78.9%
Employee Benefit Exp	1,238	1,089	899	13.7%	37.7%
Other Expenses	318	322	328	-1.3%	-3.0%
EBITDA	358	329	374	8.7%	-4.3%
<b>EBITDA margin %</b>	<b>14.2%</b>	<b>15.4%</b>	<b>19.3%</b>	<b>-118bps</b>	<b>-507bps</b>
<b>EBITDA margin %</b>	<b>14.2%</b>	<b>15.4%</b>	<b>19.3%</b>	<b>-118bps</b>	<b>-507bps</b>
Deducting-Net one time item	-	-	-	-	-
<b>Adj. EBITDA</b>	<b>358</b>	<b>329</b>	<b>325</b>	<b>8.7%</b>	<b>10.2%</b>
<b>Adj. EBITDA margin %</b>	<b>14.2%</b>	<b>15.4%</b>	<b>16.8%</b>	<b>-118bps</b>	<b>-254bps</b>
Depreciation	87	71	71	22.9%	22.5%
<b>EBIT</b>	<b>271</b>	<b>259</b>	<b>303</b>	<b>4.8%</b>	<b>-10.6%</b>
<b>Margin</b>	<b>10.8%</b>	<b>12.1%</b>	<b>15.6%</b>	<b>-133bps</b>	<b>-487bps</b>
Finance cost	116	201	85	-42.3%	36.5%
PBT before exceptional item	176.0	84.6	281.0	108.1%	-37.4%
PBT After exceptional item	176.0	84.6	281.0	-	-
Tax Expense	64	28	70	128.6%	-8.6%
Effective tax rate %	36.4%	33.1%	24.9%	-	-
<b>Company level PAT</b>	<b>112.00</b>	<b>56.58</b>	<b>211.00</b>	<b>97.9%</b>	<b>-46.9%</b>
share of P/(L) Associates	-	-	-	-	-
non-controlling	-	-	-	-	-
<b>Adj PAT</b>	<b>112.00</b>	<b>56.58</b>	<b>130.00</b>	<b>97.9%</b>	<b>-13.8%</b>
<b>Adj Pat margins</b>	<b>4.5%</b>	<b>2.6%</b>	<b>10.9%</b>	<b>721bps</b>	<b>721bps</b>
EPS (INR)	2.89	1.47	5.52	-	-

**Exhibit 3: Revenue Matrix**

Revenue by Vertical	Q2FY24	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Engineering Design Services	70.80%	71.30%	67.20%	72.20%	16.70%	11.00%
Strategic Technology Solutions	29.20%	28.70%	32.80%	27.80%	20.00%	16.60%
Revenue by Industry	Q2FY24	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Aerospace	25.60%	29.80%	28.00%	26.90%	0.90%	29.40%
HEG & Others	15.70%	18.50%	18.10%	23.00%	0.00%	-6.60%
Product Engineering Services	16.40%	14.40%	12.90%	16.90%	34.10%	-0.60%
AIP	10.70%	6.20%	5.50%	3.20%	101.10%	128.50%
Energy	2.40%	2.30%	2.20%	2.20%	19.00%	24.60%
Products and Solutions	29.20%	28.70%	33.20%	27.80%	20.00%	20.30%
Revenue By Geography	Q2FY24	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Europe	37.40%	33.50%	28.30%	40.10%	31.20%	-2.70%
USA	29.80%	30.90%	28.10%	34.40%	13.10%	4.70%
APAC	28.50%	31.10%	38.50%	21.40%	7.60%	69.60%
Canada	4.30%	4.50%	5.00%	4.10%	14.00%	28.60%
Revenue by Location	Q2FY24	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Offshore	77.00%	76.60%	76.30%	74.90%	40bps	70bps
Onsite	23.00%	23.40%	23.70%	25.10%	-40bps	-70bps
Revenue by Project	Q2FY24	Q1FY24	Q4FY23	Q1FY23		
Fixed Price	68.40%	64.20%	65.80%	60.10%		
Time & Material	31.60%	35.80%	34.20%	39.90%		

Source: Arihant Research, Company Filings

### Conference Call Highlights

Margin, in the next 2-3 years estimates of around 18% and top line will be leading bottom line of the growth going forward.

The company continue to expect healthy revenue and profitability growth in both domestic and international markets. Mistral and AXISCADES are perfectly positioned to leverage and synergize each other's capability to deliver quantum value to the customers.

#### **Acquisition**

Signed a definitive agreement to acquire 100% of EpcoGen, which is a niche solutions provider in the energy sector. These acquisitions will enhance the capabilities of Axiscades, provide access to new geographies and new strategic clients.

#### **ADD Solution**

The company completed the acquisition of add solution in Germany and have commenced consolidating the financial results of add solution from 1st of August this year. With this acquisition, the company has acquired niche automotive capabilities and vendor codes of large German OEMs and Tier 1s, which will fuel the company's expansion in the automotive sector. add solution contributed about INR 120 Mn to consolidated revenue.

#### **EBITDA**

The company has been able to maintain its EBITDA despite annual increments, but company also had a few plant closures with some of the major customers, and they have also added resources who will get billed in Q3. So the revenue loss with respect to the shutdowns close to about INR 40 Mn.

#### **Segments**

Going forward, automotive and energy verticals will constitute significant portions of the revenue with synergies from add solution and EPCOGEN.

#### **Mistral**

The company is leveraging the aerospace skills to support Mistral customers in various areas. Mistral recorded a revenue growth of 50% YoY in Q2FY24, up from INR 630 Mn to INR 940 Mn. The company has seen growth both in the product engineering services, engineering business and defense business. Of the INR 940 Mn of revenue, INR 420 Mn was from PES business and INR 520 Mn from defense business.

#### **Defense**

The Indian government is committing making India in defense, electronics and semiconductor industries through multiple initiatives and policies, which will open new opportunities for Mistral. Company continue to develop state-of-the-art defense technologies in collaboration with DRDO and through the initiatives.

#### **Finance Costs**

The company's finance costs mostly due to debt funding of Mistral acquisition was at INR 315 Mn as against INR 102.5 Mn in the same period of previous year. As communicated in Q1FY24, the company estimates a finance cost of INR 120 Mn Q2FY24.

This cost considers the beneficial impact of INR 20 Mn per quarter with respect to refinancing of acquisition debt, which was completed in Q1FY24. Going forward in the coming quarter, finance cost will be around INR 110 Mn to INR 120 Mn.

#### **Aerospace & Automotive**

The company is experiencing robust growth with strategic clients, expanding into new areas, bidding for new projects, anticipating strong growth in the automotive sector through existing clients and additional solutions, with a well-established pipeline poised to drive further expansion.

#### **Product Engineering Services**

The company's PS business for the Q2FY24 was at INR 415.9 Mn and it grew by 34% from INR 308.3 Mn as in the previous year. The production business has slowed down because of overstocking of components which people have done during 2022. So they see this improvement happening probably in the H2FY25.

Exhibit 4: Revenue trends

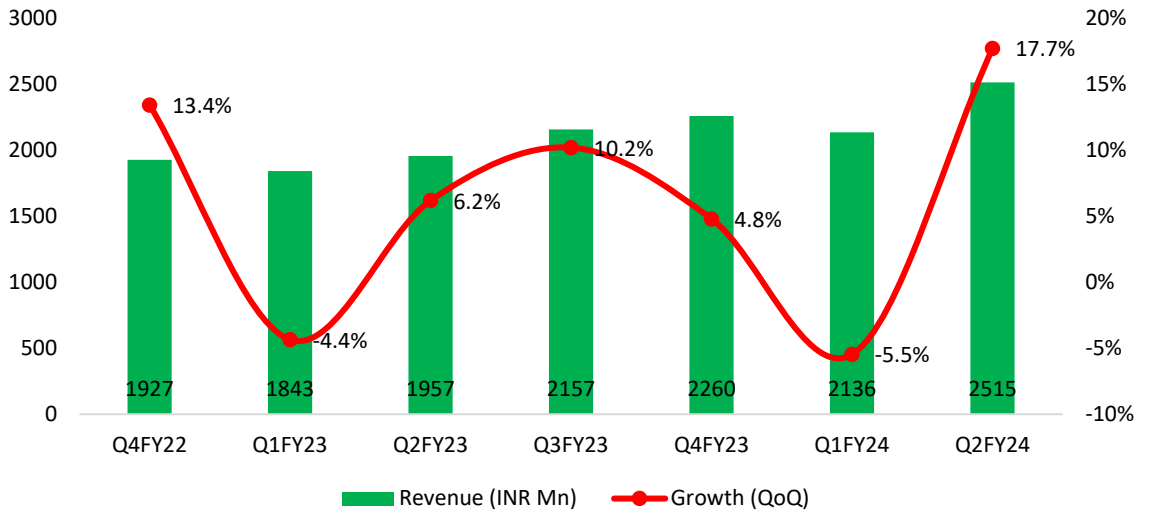


Exhibit 5: Margin expansion led by strong top line growth

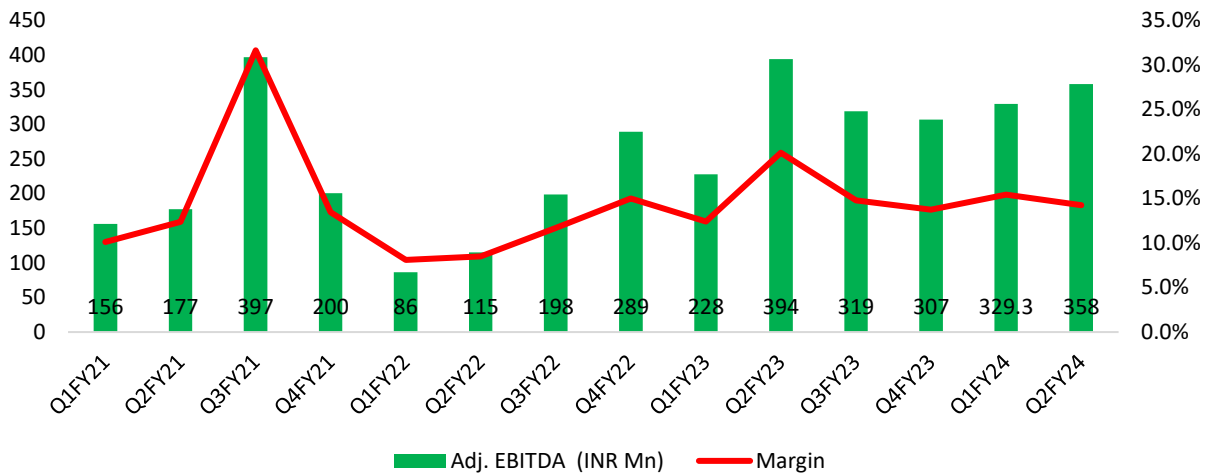
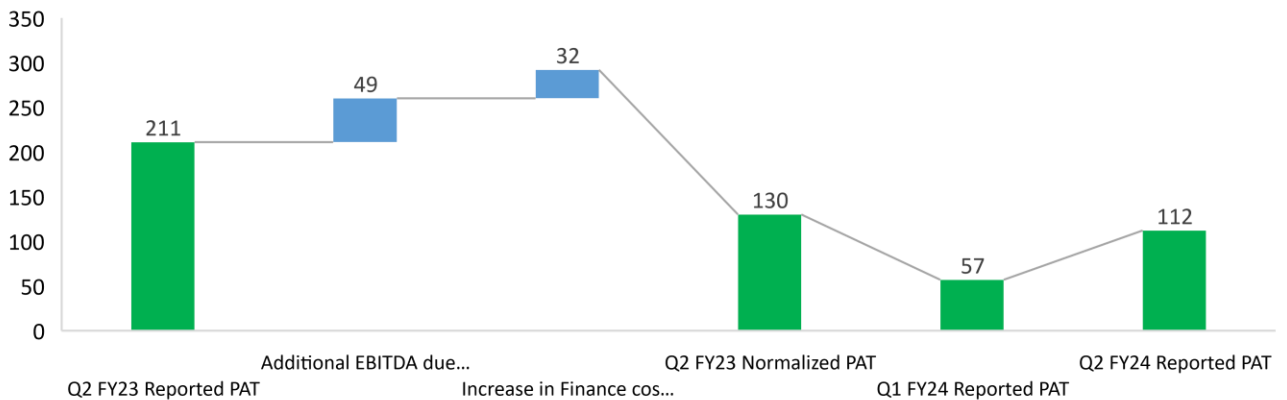


Exhibit 6: Reconciliation of PAT (in INR mn)



Source: Arianth Research, Company Filings

## Key Financials

Income Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenues</b>	6,103	8,216	9,437	10,840	12,454
Change (%)	16.5%	30.0%	15.0%	15.0%	15.0%
Raw materials	1,167	1,792	1,916	2,190	2,516
Employee costs	3,121	3,609	4,530	5,344	6,103
Other expenses	1,109	1,360	1,510	1,518	1,744
<b>Total Expenses</b>	<b>5,397</b>	<b>6,761</b>	<b>7,955</b>	<b>9,051</b>	<b>10,362</b>
<b>EBITDA</b>	<b>706</b>	<b>1,456</b>	<b>1,482</b>	<b>1,789</b>	<b>2,092</b>
EBITDA Margin	11.6%	17.7%	15.7%	16.5%	16.8%
Deducting-Net one time item	-	133	-	-	-
Adj. EBITDA	-	1323	-	-	-
Adj. EBITDA margin %	-	16.10%	-	-	-
Other Income	91	60	113	130	149
Depreciation	251	265	336	427	439
Interest	158	359	550	471	471
<b>PBT</b>	<b>389</b>	<b>891</b>	<b>709</b>	<b>1,020</b>	<b>1,331</b>
Extra-ordinary	-17	-680	-	-	-
<b>PBT after ext-ord.</b>	<b>368</b>	<b>210</b>	<b>709</b>	<b>1,020</b>	<b>1,330</b>
Tax	141	258	271	391	510
Rate (%)	38.3%	122.8%	38.3%	38.3%	38.3%
<b>PAT</b>	<b>227</b>	<b>-48</b>	<b>437</b>	<b>629</b>	<b>821</b>
MI & Associates	-9	-0.4	-1	-1	-1
<b>Adjusted PAT</b>	<b>227</b>	<b>-53</b>	<b>438</b>	<b>630</b>	<b>821</b>
Change (%)	0.0%	0%	0.0%	43.9%	30.5%

Balance Sheet					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Sources of Funds</b>					
Share Capital	190	191	192	192	192
Reserves & Surplus	3,123	3,190	3,626	4,255	5,075
<b>Net Worth</b>	<b>3,313</b>	<b>3,381</b>	<b>3,819</b>	<b>4,447</b>	<b>5,267</b>
<b>Loan Funds</b>	<b>488</b>	<b>3,140</b>	<b>3,140</b>	<b>3,140</b>	<b>3,140</b>
Deferred Tax & other liabilities	-	-	-	-	-
<b>Capital Employed</b>	<b>3,854</b>	<b>6,579</b>	<b>7,017</b>	<b>7,645</b>	<b>8,465</b>
<b>Application of Funds</b>					
Gross Block	3,001	3,362	3,562	3,662	3,761
Less: Accumulated Depreciation	1,326	1,592	1,928	2,355	2,795
Net Block	1,675	1,770	1,634	1,306	966
Other non current assets	350	201	201	201	201
Deferred tax assets	280	198	198	198	198
<b>Net fixed assets</b>	<b>2,305</b>	<b>2,169</b>	<b>2,033</b>	<b>1,706</b>	<b>1,365</b>
<b>Investments</b>	<b>838</b>	<b>335</b>	<b>335</b>	<b>335</b>	<b>335</b>
Debtors	1,452	1,790	2,056	2,362	2,714
Inventories	516	659	703	804	930
Cash & bank balance	1,054	996	3,748	4,718	5,885
Loans & advances & other CA	391	106	106	106	106
<b>Total current assets</b>	<b>3,412</b>	<b>5,143</b>	<b>6,613</b>	<b>7,990</b>	<b>9,635</b>
Current liabilities	3,869	2,198	2,831	3,252	3,737
Provisions	237	267	267	267	267
<b>Net current assets</b>	<b>-694</b>	<b>2,678</b>	<b>3,514</b>	<b>4,470</b>	<b>5,630</b>
<b>Total Assets</b>	<b>3,854</b>	<b>6,579</b>	<b>7,017</b>	<b>7,645</b>	<b>8,465</b>

Cash Flow Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>PBT</b>	<b>368</b>	<b>210</b>	<b>709</b>	<b>1,020</b>	<b>1,330</b>
Depreciation	251	265	336	427	439
Interest & others	58	295	436	340	321
Cash flow before WC changes	676	770	1,480	1,787	2,091
<b>(Inc)/dec in working capital</b>	<b>1,087</b>	<b>-1,837</b>	<b>323</b>	<b>15</b>	<b>6</b>
Operating CF after WC changes	1,763	-1,067	1,803	1,802	2,097
Less: Taxes	-141	-258	-271	-391	-510
<b>Operating cash flow</b>	<b>1,622</b>	<b>-1,325</b>	<b>1,532</b>	<b>1,411</b>	<b>1,587</b>
(Inc)/dec in F.A + CWIP	139	312	-200	-100	-99
(Pur)/sale of investment	44	503.14	-	-	-
<b>Cash flow from investing</b>	<b>183</b>	<b>815</b>	<b>-200</b>	<b>-100</b>	<b>-99</b>
<b>Free cash flow (FCF)</b>	<b>1,822</b>	<b>-1,225</b>	<b>1,332</b>	<b>1,311</b>	<b>1,488</b>
Loan raised/(repaid)	-26	2,652	-	-	-
Equity raised	1	1.43	1.29	-	-
Interest & others	-1,574	-2,200	1,418	-341	-322
Dividend	-	-	-	-	-
<b>Cash flow from financing activities</b>	<b>-1,599</b>	<b>453</b>	<b>1,419</b>	<b>-341</b>	<b>-322</b>
<b>Net inc/(dec) in cash</b>	<b>206</b>	<b>-57</b>	<b>2,752</b>	<b>970</b>	<b>1,166</b>
Opening balance of cash	848	1,054	996	3,748	4,718
Closing balance of cash	1,054	996	3,748	4,718	5,885

Key Ratios					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	5.9	-1.4	11.5	16.6	21.6
CEPS	12.6	5.6	20.4	27.8	33.2
BVPS	87.3	89.1	100.6	117.2	138.8
DPS	-	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Valuation (x)</b>					
P/E	95.2	-407.3	48.4	33.6	25.8
P/CEPS	44.3	99.7	27.4	20.1	16.8
P/BV	6.4	6.3	5.5	4.8	4.0
EV/EBITDA	29.2	16.0	13.9	11.0	8.8
Dividend Yield (%)	-	-	-	-	-
<b>Return Ratio (%)</b>					
EBITDA Margin	11.6%	17.7%	15.7%	16.5%	16.8%
PAT Margin	3.7%	-0.6%	4.6%	5.8%	6.6%
ROE	6.8%	-1.6%	11.4%	14.1%	15.6%
ROCE	11.8%	18.1%	16.3%	17.8%	19.5%
<b>Leverage Ratio (%)</b>					
Total D/E	0.15	0.93	0.82	0.71	0.60
Net D/E	-0.2	0.6	-0.2	-0.4	-0.5
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.6	1.2	1.3	1.4	1.5
Inventory Days	161	134	134	134	135
Receivable Days	87	80	80	80	80
Payable days	246	110	110	110	110

Source: Arihant Research, Company Filings

**Arihant Research Desk**Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

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Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880