

*Good Q2FY20 numbers; EBITDA margin saw healthy improvement, company has turned the corner with robust growth in PAT; Maintain Buy with revised target price of Rs 88*

|                      |                       |
|----------------------|-----------------------|
| <b>Current</b>       | <b>Previous</b>       |
| <b>CMP: Rs 67</b>    |                       |
| <b>Rating: Buy</b>   | <b>Rating: Buy</b>    |
| <b>Target: Rs 88</b> | <b>Target: Rs 113</b> |

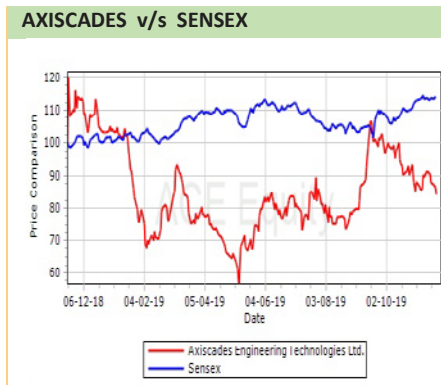
(CMP as on November 20, 2019)

| Stock Info                |               |
|---------------------------|---------------|
| INDEX                     |               |
| BSE                       | 532395        |
| NSE                       | AXISCADES     |
| Bloomberg                 | AXET IN       |
| Reuters                   | AXIT.BO       |
| Sector                    | IT - Software |
| Face Value (Rs)           | 5             |
| Equity Capital (Rs Mn)    | 189           |
| Market Cap (Rs Mn)        | 2,532         |
| 52w H/L (Rs)              | 100 /44       |
| Avg Weekly Vol (BSE+NSE)  | 503,720       |
| Shareholding Pattern      |               |
|                           | %             |
| <b>(As on Sept, 2019)</b> |               |
| Promoters                 | 67.6          |
| Public & Others           | 32.4          |

Source: NSE, Arihant Research

| Stock Performance (%) | 3m  | 6m   | 12m   |
|-----------------------|-----|------|-------|
| AXISCADES             | 9.3 | 19.6 | -15.8 |
| SENSEX                | 8.2 | 6.7  | 13.1  |

Source: ACE Equity, Arihant Research



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**AXISCADES Engineering Technologies reported good set of numbers in Q2FY20. Consolidated revenue for the quarter stood at Rs 1,578 mn, registering +2.2% QoQ/-3.1% YoY growth. Reported EBITDA turned positive to Rs 179 mn against an EBITDA loss of Rs 61 mn in the corresponding quarter of previous year. Sequentially EBITDA saw a growth of +14.7%. EBITDA margin expanded +123 bps QoQ/+1507 bps YoY to 11.3%, against a negative margin of 3.7% in Q2FY19. Expansion in margin came on the back of lower input costs (down 38.4% YoY) and other expenses (down 47.3% YoY). Consolidated PAT for the quarter stood at Rs 45 mn, registering a sequential growth of +380.2%. The company has turned around and posted a positive PAT against a loss of Rs 3 mn in the corresponding quarter of previous year. Concerted efforts from the management to improve the company's operating performance has started bearing fruit, as is visible from the remarkable improvement in its Q2FY20 results. We are bullish on AXISCADES from longer-term perspective and after factoring in good Q2FY20 results have raised our FY20E/FY21E estimates. We maintain our Buy rating on AXISCADES with a revised target price of Rs 88.**

**Q2FY20 Highlights**

- USD Revenue stood at US\$ 22.2 mn, growth of +1.4% QoQ/-5.1% YoY. In Rupee terms, revenue was Rs 1,578 mn, growing +2.2% QoQ/-3.1% YoY.
- The company added 3 new clients in digital domain during the quarter.
- AXISCADES received additional orders during the quarter from defence OEMs, amounting to USD 2.5 mn.
- During H1FY20 period, the company generated healthy operating cashflow to the tune of Rs 241 mn as compared to negative operating cashflow of Rs 334 mn in H1FY19.
- AXISCADES expanded its footprint in Mexico and China for its existing strategic client during the quarter.

**Valuations**

At CMP of Rs 67, AXISCADES is trading at FY20E and FY21E, P/E of 22.2x and 15.3x respectively. Factoring in good Q2FY20 results, we have raised our FY20E/FY21E estimates to build in higher margin and profitability. We have also changed our valuation methodology from EV/EBITDA to P/E basis, and now value the stock at a target P/E of 20x its FY21E earnings, which yields a target price of Rs 88 per share. **We maintain our Buy rating on AXISCADES with a revised target price of Rs 88, giving an upside potential of 31.3%.**

**Financial Performance**

| YE March (Rs Mn) | Net Sales | EBITDA | PAT | EPS (Rs) | EBITDA Margin % | RoE (%) | P/E (x) |
|------------------|-----------|--------|-----|----------|-----------------|---------|---------|
| FY18             | 5,192     | 176    | -82 | -2.2     | 3.4             | -2.8    | -30.7   |
| FY19             | 6,077     | 119    | -81 | -2.2     | 2.0             | -2.9    | -31.1   |
| FY20E            | 7,022     | 702    | 114 | 3.0      | 10.0            | 3.5     | 22.2    |
| FY21E            | 8,084     | 889    | 165 | 4.4      | 11.0            | 4.5     | 15.3    |

Source: Company, Arihant Research

## Q2FY20 and H1FY20 Financial Performance

| Rs Mn (consolidated)    | Q2FY20       | Q1FY20       | Q2FY19       | Q-o-Q          | Y-o-Y           | H1FY20       | H1FY19       | Y-o-Y           |
|-------------------------|--------------|--------------|--------------|----------------|-----------------|--------------|--------------|-----------------|
| Net Revenue             | 1,578        | 1,544        | 1,628        | 2.2%           | -3.1%           | 3,122        | 2,854        | 9.4%            |
| Raw Material Cost       | 229          | 294          | 371          | -22.1%         | -38.4%          | 523          | 570          | -8.3%           |
| Employee cost           | 940          | 853          | 882          | 10.2%          | 6.7%            | 1,794        | 1,676        | 7.0%            |
| Other Expenses          | 230          | 241          | 436          | -4.5%          | -47.3%          | 471          | 687          | -31.5%          |
| <b>EBITDA</b>           | <b>179</b>   | <b>156</b>   | <b>-61</b>   | <b>14.7%</b>   | <b>-</b>        | <b>335</b>   | <b>-79</b>   | <b>-</b>        |
| <b>EBITDA margin %</b>  | <b>11.3%</b> | <b>10.1%</b> | <b>-3.7%</b> | <b>+123bps</b> | <b>+1507bps</b> | <b>10.7%</b> | <b>-2.8%</b> | <b>+1350bps</b> |
| Other Income            | 27           | 13           | 11           | 112.9%         | 147.0%          | 40           | 32           | 22.8%           |
| Depreciation            | 67           | 74           | 49           | -9.9%          | 36.1%           | 141          | 101          | 39.4%           |
| <b>EBIT</b>             | <b>139</b>   | <b>94</b>    | <b>-99</b>   | <b>47.2%</b>   | <b>-</b>        | <b>233</b>   | <b>-148</b>  | <b>-</b>        |
| Finance cost            | 70           | 70           | 45           | -0.4%          | 56.1%           | 140          | 97           | 44.3%           |
| Exceptional Item        | -            | -            | 145          | -              | -               | -            | 145          | -               |
| <b>PBT</b>              | <b>69</b>    | <b>24</b>    | <b>1</b>     | <b>184.1%</b>  | <b>-</b>        | <b>93</b>    | <b>-100</b>  | <b>-</b>        |
| Tax Expense             | 23           | 14           | 3            | 61.3%          | 578.9%          | 37           | -22          | -               |
| Effective tax rate %    | 33.2%        | 58.5%        | 279.1%       | -2530bps       | -               | 39.8%        | 21.6%        | +1826bps        |
| <b>PAT</b>              | <b>46</b>    | <b>10</b>    | <b>-2</b>    | <b>357.4%</b>  | <b>-</b>        | <b>56</b>    | <b>-78</b>   | <b>-</b>        |
| MI & Associates         | -1           | -1           | -1           | -              | -               | -1.4         | -2.3         | -               |
| <b>Consolidated PAT</b> | <b>45</b>    | <b>9</b>     | <b>-3</b>    | <b>380.2%</b>  | <b>-</b>        | <b>55</b>    | <b>-81</b>   | <b>-</b>        |
| <b>PAT margin %</b>     | <b>2.9%</b>  | <b>0.7%</b>  | <b>-0.1%</b> | <b>+227bps</b> | <b>+306bps</b>  | <b>1.8%</b>  | <b>-2.8%</b> | <b>+455bps</b>  |
| <b>EPS (Rs)</b>         | <b>1.2</b>   | <b>0.3</b>   | <b>-0.1</b>  | <b>380.2%</b>  | <b>-</b>        | <b>1.5</b>   | <b>-2.1</b>  | <b>-</b>        |

Source: Company, Arianth Research

## Revision in Estimates

| Particulars (Rs Mn) | Old Estimate |       | New Estimate |       |
|---------------------|--------------|-------|--------------|-------|
|                     | FY20E        | FY21E | FY20E        | FY21E |
| Revenue             | 7,022        | 8,084 | 7,022        | 8,084 |
| EBITDA              | 351          | 469   | 702          | 889   |
| Margin (%)          | 5%           | 5.8%  | 10%          | 11%   |
| PAT                 | 55           | 124   | 114          | 165   |

Source: Company, Arianth Research

## Post Result Conference Call Highlights

- During the quarter the company improved its EBITDA margin by 1507 bps YoY. The expansion in margin can be attributed to lower sub-contracting charges and reduction in other expenses.
- Employee costs went up by 6.7% YoY and 10.2% QoQ, due to wage hike impact. Despite higher employee costs, AXISCADES was able to improve its margin which is commendable. The company management expects its margin to remain in this range of 10-11% going forward.
- The H1FY20 results clearly show the turnaround path for the company and the top management is confident of steering the company to new growth orbit by maintaining this improved operating performance in the coming quarters.

## Consolidated Financials

## Income Statement

| Y/E March (Rs Mn)         | FY17         | FY18         | FY19         | FY20E        | FY21E        |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues</b>           | 4,868        | 5,192        | 6,077        | 7,022        | 8,084        |
| <i>Change (%)</i>         | 29.7%        | 6.7%         | 17.1%        | 15.5%        | 15.1%        |
| Raw materials             | 670          | 549          | 945          | 1,124        | 1,213        |
| Stock Adjustments         | 0            | 0            | 0            | 0            | 0            |
| Employee costs            | 2,511        | 2,837        | 3,501        | 3,651        | 4,204        |
| Other expenses            | 1,263        | 1,630        | 1,512        | 1,545        | 1,778        |
| <b>Total Expenses</b>     | <b>4,476</b> | <b>5,016</b> | <b>5,958</b> | <b>6,320</b> | <b>7,195</b> |
| <b>EBITDA</b>             | <b>392</b>   | <b>176</b>   | <b>119</b>   | <b>702</b>   | <b>889</b>   |
| Other Income              | 146          | 151          | 90           | 98           | 113          |
| Depreciation              | 122          | 188          | 197          | 281          | 302          |
| Interest                  | 133          | 137          | 236          | 321          | 346          |
| <b>PBT</b>                | <b>283</b>   | <b>2</b>     | <b>-224</b>  | <b>198</b>   | <b>355</b>   |
| Extra-ordinary            | -5           | 30           | -145         | 0            | 0            |
| <b>PBT after ext-ord.</b> | <b>288</b>   | <b>-28</b>   | <b>-78</b>   | <b>198</b>   | <b>355</b>   |
| Tax                       | 143          | 50           | -7           | 79           | 177          |
| <i>Rate (%)</i>           | 49.5%        | -180.6%      | 9.2%         | 40.0%        | 50.0%        |
| <b>PAT</b>                | <b>146</b>   | <b>-78</b>   | <b>-71</b>   | <b>119</b>   | <b>177</b>   |
| MI & Associates           | -4           | -4           | -10          | -5           | -12          |
| <b>Consolidated PAT</b>   | <b>141</b>   | <b>-82</b>   | <b>-81</b>   | <b>114</b>   | <b>165</b>   |
| <i>Change (%)</i>         | -50.6%       | -158.4%      | -1.4%        | 240.1%       | 45.2%        |

Source: Company, Arianth Research

## Balance Sheet

| Y/E March (Rs Mn)                | FY17         | FY18         | FY19         | FY20E        | FY21E        |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Sources of Funds</b>          |              |              |              |              |              |
| Share Capital                    | 189          | 189          | 189          | 189          | 189          |
| Reserves & Surplus               | 2,826        | 2,728        | 2,658        | 3,066        | 3,487        |
| <b>Net Worth</b>                 | <b>3,015</b> | <b>2,917</b> | <b>2,847</b> | <b>3,254</b> | <b>3,676</b> |
| <b>Loan Funds</b>                | <b>812</b>   | <b>1,378</b> | <b>1,315</b> | <b>1,285</b> | <b>1,235</b> |
| Deferred Tax & other liabilities | 92           | 1,035        | 973          | 973          | 973          |
| <b>Capital Employed</b>          | <b>3,949</b> | <b>5,365</b> | <b>5,172</b> | <b>5,551</b> | <b>5,923</b> |
| <b>Application of Funds</b>      |              |              |              |              |              |
| Gross Block                      | 2,626        | 3,741        | 3,748        | 3,550        | 3,350        |
| Less: Accumulated Depreciation   | 103          | 291          | 489          | 770          | 1,071        |
| Net Block                        | 2,523        | 3,450        | 3,259        | 2,780        | 2,278        |
| CWIP                             | 59           | 5            | 6            | 6            | 6            |
| Other non current assets         | 64           | 377          | 446          | 446          | 446          |
| Deferred tax assets              | 0            | 162          | 255          | 255          | 255          |
| <b>Net fixed assets</b>          | <b>2,646</b> | <b>3,994</b> | <b>3,966</b> | <b>3,487</b> | <b>2,986</b> |
| <b>Investments</b>               | <b>4</b>     | <b>63</b>    | <b>299</b>   | <b>299</b>   | <b>299</b>   |
| Debtors                          | 842          | 1,660        | 1,529        | 1,731        | 2,215        |
| Inventories                      | 20           | 301          | 202          | 215          | 282          |
| Cash & bank balance              | 719          | 619          | 583          | 1,310        | 2,081        |
| Loans & advances & other CA      | 1,710        | 951          | 998          | 1,154        | 1,329        |
| <b>Total current assets</b>      | <b>3,291</b> | <b>3,532</b> | <b>3,312</b> | <b>4,411</b> | <b>5,907</b> |
| Current liabilities              | 1,386        | 3,683        | 3,876        | 4,117        | 4,740        |
| Provisions                       | 605          | 188          | 189          | 189          | 189          |
| <b>Net current assets</b>        | <b>1,300</b> | <b>-339</b>  | <b>-753</b>  | <b>105</b>   | <b>979</b>   |
| <b>Total Assets</b>              | <b>3,949</b> | <b>5,365</b> | <b>5,172</b> | <b>5,551</b> | <b>5,923</b> |

Source: Company, Arianth Research

## Cash Flow Statement

| Y/E March (Rs Mn)                          | FY17        | FY18          | FY19        | FY20E       | FY21E       |
|--|-------------|---------------|-------------|-------------|-------------|
| <b>PBT</b>                                 | <b>288</b>  | <b>-28</b>    | <b>-78</b>  | <b>198</b>  | <b>355</b>  |
| Depreciation                               | 122         | 188           | 197         | 281         | 302         |
| Interest & others                          | -18         | -18           | 135         | 218         | 221         |
| Cash flow before WC changes                | 393         | 142           | 254         | 697         | 877         |
| <b>(Inc)/dec in working capital</b>        | <b>-81</b>  | <b>1,449</b>  | <b>378</b>  | <b>-132</b> | <b>-102</b> |
| Operating CF after WC changes              | 312         | 1,591         | 633         | 565         | 775         |
| Less: Taxes                                | -143        | -50           | 7           | -79         | -177        |
| <b>Operating cash flow</b>                 | <b>169</b>  | <b>1,540</b>  | <b>640</b>  | <b>486</b>  | <b>598</b>  |
| (Inc)/dec in F.A + CWIP                    | -287        | -2,995        | 20          | 200         | 200         |
| (Pur)/sale of investment                   | 277         | -59           | -237        | 0           | 0           |
| <b>Cash flow from investing</b>            | <b>-10</b>  | <b>-3,054</b> | <b>-217</b> | <b>200</b>  | <b>200</b>  |
| <b>Free cash flow (FCF)</b>                | <b>-118</b> | <b>667</b>    | <b>835</b>  | <b>686</b>  | <b>798</b>  |
| Loan raised/(repaid)                       | 99          | 566           | -63         | -30         | -50         |
| Equity raised                              | 0           | 0             | 0           | 0           | 0           |
| Interest & others                          | 125         | 848           | -396        | 70          | 24          |
| Dividend                                   | 0           | 0             | 0           | 0           | 0           |
| <b>Cash flow from financing activities</b> | <b>225</b>  | <b>1,414</b>  | <b>-459</b> | <b>40</b>   | <b>-26</b>  |
| <b>Net inc /(dec) in cash</b>              | <b>383</b>  | <b>-100</b>   | <b>-36</b>  | <b>727</b>  | <b>772</b>  |
| Opening balance of cash                    | 335         | 719           | 619         | 583         | 1,310       |
| Closing balance of cash                    | 719         | 619           | 583         | 1,310       | 2,081       |

Source: Company, Arianth Research

## Key Ratios

| Y/E March (Rs Mn)         | FY17 | FY18  | FY19  | FY20E | FY21E |
|---------------------------|------|-------|-------|-------|-------|
| <b>Per share (Rs)</b>     |      |       |       |       |       |
| EPS                       | 3.7  | -2.2  | -2.2  | 3.0   | 4.4   |
| CEPS                      | 7.0  | 2.8   | 3.1   | 10.5  | 12.4  |
| BVPS                      | 79.8 | 77.2  | 75.3  | 86.1  | 97.3  |
| DPS                       | 0.0  | 0.0   | 0.0   | 0.0   | 0.0   |
| Payout (%)                | 0.0% | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| <b>Valuation (x)</b>      |      |       |       |       |       |
| P/E                       | 17.9 | -30.7 | -31.1 | 22.2  | 15.3  |
| P/CEPS                    | 9.6  | 24.1  | 21.8  | 6.4   | 5.4   |
| P/BV                      | 0.8  | 0.9   | 0.9   | 0.8   | 0.7   |
| EV/EBITDA                 | 6.7  | 18.7  | 27.3  | 3.6   | 1.9   |
| Dividend Yield (%)        | 0.0% | 0.0%  | 0.0%  | 0.0%  | 0.0%  |
| <b>Return Ratio (%)</b>   |      |       |       |       |       |
| EBIDTA Margin             | 8.0% | 3.4%  | 2.0%  | 10.0% | 11.0% |
| PAT Margin                | 2.9% | -1.6% | -1.3% | 1.6%  | 2.0%  |
| ROE                       | 4.7% | -2.8% | -2.9% | 3.5%  | 4.5%  |
| ROCE                      | 6.8% | -0.2% | -1.5% | 7.6%  | 9.9%  |
| <b>Leverage Ratio (%)</b> |      |       |       |       |       |
| Total D/E                 | 0.3  | 0.5   | 0.5   | 0.4   | 0.3   |
| Net D/E                   | 0.0  | 0.3   | 0.3   | 0.0   | -0.2  |
| <b>Turnover Ratios</b>    |      |       |       |       |       |
| Asset Turnover (x)        | 1.2  | 1.0   | 1.2   | 1.3   | 1.4   |
| Inventory Days            | 10   | 200   | 78    | 70    | 85    |
| Receivable Days           | 63   | 117   | 92    | 90    | 100   |
| Payable days              | 149  | 272   | 244   | 214   | 214   |

Source: Company, Arianth Research

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**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%       |

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