

New multi-million dollar contracts on the way as operational metrics improve

CMP: Rs 68

Rating: BUY

Target Price: Rs 84

Stock Info

BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (Rs)	5
Equity Capital (Rs mn)	189
Mkt Cap (Rs mn)	2,826
52w H/L (Rs)	86 / 44
Avg Yearly Vol (in 000')	179

Shareholding Pattern %

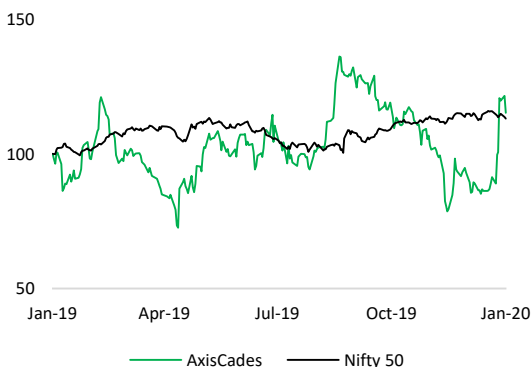
(As on Dec, 2019)

Promoters	67.76
FII	0
DII	0.10
Public & Others	32.13

Stock Performance (%)

	3m	6m	12m
AxisCades	-3.6	4.2	12.8
Nifty	2.3	7.7	13.1

AxisCades Vs Nifty



AXISCADES Engineering Technologies reported good set of numbers in Q3FY20. Consolidated revenue for the quarter stood at Rs 1,683 mn, registering +6.6% QoQ/+5.3% YoY growth. Reported EBITDA stood at Rs 250 mn against Rs 114 mn in the corresponding quarter of previous year. On a sequential basis EBITDA saw a growth of +14.7%. EBITDA margin expanded +351 bps QoQ/+773 bps YoY to 14.8%, against 7.1% in Q3FY19. The company saw expansion in margin after closer alignment to customers. Consolidated PAT for the quarter stood at Rs 80 mn, registering a sequential growth of +74.8% QoQ. The company has turned around and posted a positive PAT against a loss of Rs 7 mn in the corresponding quarter of previous year. Concerted efforts from the management to improve the company's operating performance has started bearing fruit which is reflected from stability in the employee costs and other expenses in its Q3FY20 results. With a longer-term perspective and after factoring in good Q3FY20 results, we have revised our FY20E/FY21E estimates. We maintain our Buy rating on AXISCADES with a target price of Rs 84.

Q3FY20 Highlights

- USD Revenue stood at US\$ 23.5 mn, growth of +5.3% QoQ/6.6% YoY. In Rupee terms, revenue was Rs 1,578 mn.
- The company bagged 2 multi-million dollar contracts during the quarter.
- The company has initiated engagement with a new heavy engineering customer in North America.
- Received additional orders from a European Defence OEM.
- Credit rating upgraded to CARE BBB Stable.
- The company is reducing its long term debt and availing short term loans for near term project deliveries.

Outlook & Valuation

We expect that AxisCades Engineering will keep on adding several multi-million dollar contracts in the future as well and its engagements in the defense sector revenue yields to boost its margins as well. At CMP of Rs 68, AXISCADES is trading at FY20E and FY21E, P/E of 13.2x and 8.1x respectively. Factoring in good Q3FY20 results, we revised our FY20E/FY21E estimates to build in higher margin and profitability in the future. We value the stock on a P/E (x) multiple of 10x its FY21E earnings, which yields a target price of Rs 84 per share. **We maintain our Buy rating on AXISCADES with a target price of Rs 84, giving an upside potential of 24%.**

Particulars (Rs mn)	FY18	FY19	FY20E	FY21E
Net Sales	5,192	6,077	6,406	6,753
EBITDA	176	119	779	919
PAT	-78	-71	199	328
EPS (per share)	-2.2	-2.2	5.1	8.4
ROE	-2.8%	-2.9%	3.5%	4.5%
P/E	-31.2	-31.6	13.2	8.1

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q3 FY20 - Quarterly Performance (Consolidated)

(in Rs Mn)

Particulars	Q3FY20	Q2FY20	Q3FY19	Q-o-Q	Y-o-Y	9MFY20	9MFY19	Y-o-Y
Net Revenue	1,683	1,578	1,599	6.6%	5.3%	4,805	4,453	7.9%
Raw Material Cost	268	229	297	16.9%	-10.1%	790	868	-8.9%
Employee cost	951	940	918	1.1%	3.6%	2,744	2,594	5.8%
Other Expenses	215	230	270	-6.6%	-20.3%	686	957	-28.3%
EBITDA	250	179	114	39.7%	-	584	34	1604.3%
EBITDA margin %	14.8%	11.3%	7.1%	351bps	773bps	12.2%	0.8%	1139bps
Other Income	23	27	9	-14.8%	149.5%	63	41	50.9%
Depreciation	70	67	48	4.2%	45.3%	211	149	41.3%
EBIT	203	139	75	46.2%	170.8%	436	-73	NA
Finance cost	79	69	61	14.4%	29.1%	218	158	37.6%
Exceptional Item	-	-	-			-	145	
PBT	124	70	14	77.7%	807.4%	219	-86	NA
Tax Expense	42	23	20	83.7%	113.1%	79	-2	-
Effective tax rate %	34.1%	32.9%	145.0%			36.3%	2.1%	
PAT	82	47	-6	74.8%		139	-85	NA
MI & Associates	-1	-1	-1	-	-	-4.1	-3.4	
Consolidated PAT	80	45	-7	77.0%		135	-88	NA
<i>PAT margin %</i>	<i>4.9%</i>	<i>3.0%</i>	<i>-0.4%</i>	<i>189bps</i>	<i>524bps</i>	<i>2.9%</i>	<i>-1.9%</i>	<i>480bps</i>
EPS (Rs)	2.1	1.2	-0.2	77.0%		3.6	-2.3	NA

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Key Financials

Profit & Loss Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Revenues	5,192	6,077	6,406	6,753
<i>Change (%)</i>	6.7%	17.1%	5.4%	5.4%
Raw materials	549	945	1,054	1,013
Stock Adjustments	0	0	0	0
Employee costs	2,837	3,501	3,659	3,857
Other expenses	1,630	1,512	915	964
Total Expenses	5,016	5,958	5,627	5,834
EBITDA	176	119	779	919
Other Income	151	90	90	95
Depreciation	188	197	281	266
Interest	137	236	321	309
PBT	2	-224	266	439
Extra-ordinary	30	-145	0	0
PBT after ext-ord.	-28	-78	266	439
Tax	50	-7	67	110
<i>Rate (%)</i>	-180.6%	9.2%	25.2%	25.2%
PAT	-78	-71	199	328
MI & Associates	-4	-10	-5	-12
Consolidated PAT	-82	-81	194	316
<i>Change (%)</i>	-158.4%	-1.4%	339.0%	62.7%

Cash Flow Statement

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
PBT	-28	-78	266	439
Depreciation	188	197	281	266
Interest & others	-18	135	227	202
Cash flow before WC changes	142	254	774	907
(Inc)/dec in working capital	1,449	378	-226	-158
Operating CF after WC changes	1,591	633	548	749
Less: Taxes	-50	7	-67	-110
Operating cash flow	1,540	640	481	639
(Inc)/dec in F.A + CWIP	-2,995	20	200	200
(Pur)/sale of investment	-59	-237	0	0
Cash flow from investing	-3,054	-217	200	200
Free cash flow (FCF)	667	835	681	839
Loan raised/(repaid)	566	-63	-30	-50
Equity raised	0	0	0	0
Interest & others	848	-396	2,370	1,113
Dividend	0	0	0	0
Cash flow from financing activities	1,414	-459	2,340	1,063
Net inc/(dec) in cash	-100	-36	3,021	1,902
Opening balance of cash	719	619	583	3,604
Closing balance of cash	619	583	3,604	5,505

Balance Sheet

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	189	189	189	189
Reserves & Surplus	2,728	2,658	5,365	6,839
Net Worth	2,917	2,847	5,554	7,028
Loan Funds	1,378	1,315	1,285	1,235
Deferred Tax & other liabilities	1,035	973	973	973
Capital Employed	5,365	5,172	7,851	9,274
Application of Funds				
Gross Block	3,741	3,748	3,550	3,350
Less: Accumulated Depreciation	291	489	859	1,295
Net Block	3,450	3,259	2,691	2,055
CWIP	5	6	6	6
Other non current assets	377	446	446	446
Deferred tax assets	162	255	255	255
Net fixed assets	3,994	3,966	3,398	2,762
Investments	63	299	299	299
Debtors	1,660	1,529	1,580	1,850
Inventories	301	202	202	236
Cash & bank balance	619	583	3,604	5,505
Loans & advances & other CA	951	998	1,053	1,110
Total current assets	3,532	3,312	6,439	8,701
Current liabilities	3,683	3,876	3,756	3,959
Provisions	188	189	189	189
Net current assets	-339	-753	2,494	4,553
Total Assets	5,365	5,172	7,851	9,274

Key Ratios

Y/E March (Rs Mn)	FY18	FY19	FY20E	FY21E
Per share (Rs)				
EPS	-2.2	-2.2	5.1	8.4
CEPS	2.8	3.1	12.6	15.4
BVPS	77.2	75.3	147.0	186.0
DPS	0.0	0.0	0.0	0.0
Payout (%)	0.0%	0.0%	0.0%	0.0%
Valuation (x)				
P/E	-32.0	-32.4	13.6	8.3
P/CEPS	25.1	22.7	5.5	4.5
P/BV	0.9	0.9	0.5	0.4
EV/EBITDA	18.7	27.3	0.3	-1.9
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%
Return Ratio (%)				
EBIDTA Margin	3.4%	2.0%	12.2%	13.6%
PAT Margin	-1.6%	-1.3%	3.0%	4.7%
ROE	-2.8%	-2.9%	3.5%	4.5%
ROCE	-0.2%	-1.5%	6.3%	7.0%
Leverage Ratio (%)				
Total D/E	0.5	0.5	0.2	0.2
Net D/E	0.3	0.3	-0.4	-0.6
Turnover Ratios				
Asset Turnover (x)	1.0	1.2	0.8	0.7
Inventory Days	200	78	70	85
Receivable Days	117	92	90	100
Payable days	272	244	214	214

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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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