

CMP: INR 497

Rating: Accumulate

Target Price: INR 569

Stock Info

BSE	532395
NSE	AXISCADES
Bloomberg	AXET IN
Reuters	AXIT.BO
Sector	IT
Face Value (INR)	5
Equity Capital (INR mn)	189
Mkt Cap (INR mn)	19,934
52w H/L (INR)	530/ 123
Avg Yearly Vol (in 000')	24

Shareholding Pattern %

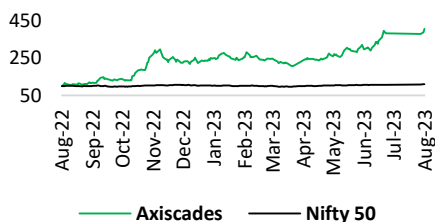
(As on June, 2023)

Promoters	66.2
Public & Others	33.8

Stock Performance (%)

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

Axiscades Vs Nifty



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AXISCADES Technologies reported a decent set of numbers in Q1FY24: Reported revenue of INR 2,136 Mn (down 4.3% QoQ/ up 16.6% YoY) below our estimate of INR 2288 Mn. The de-growth is driven by due to lumpiness and back-ending of defense business. Revenue was up 16.6% YoY, driven by newer verticals, Aerospace contracts, and strong performance in strategic technology solutions, while HEG segment performance was muted.

EBITDA Margin expansion driven by improvement in operating metrics: Adjusted EBITDA margin expansion by 169bps QoQ/ +299bps YoY at 15.5% against our estimate of 16.2%. The company has incurred additional finance cost of INR 67.4 Mn towards the pre-closure charges for re-financed loan.

PAT de-grow led by additional finance cost: The company reported a consolidated PAT of INR 57 Mn de-grow by 64% QoQ against our estimate of INR 141 Mn due to one time finance charges of inr 67.4Mn. (INR -317 Mn in Q1FY23)

Strong segmental growth driven by new clients: The company's overall revenue grew by 16.6% YoY, predominantly driven by newer verticals like Automotive and Energy, while also increasing its share in existing Aerospace and Products and Solutions (Defence) verticals. Engineering Design saw a 15.0% YoY growth due to contributions from Aerospace and new clients in AIP and Energy. Strategic Technology Solutions achieved a strong 20.3% YoY growth, Aerospace grew by 29.4% YoY due to traction in long term contract with Airbus, while AIP surged by 128.5% YoY from recent clients. Products and Solutions (Defense) vertical grew by 20.3% YoY.

Outlook & Valuation

AXISCADES Technologies reported a decent performance in the Q1FY24 primarily due addition of new clients and good growth in most of the segment. With a margin target of 18-19% in the near term, AXISCADES is harnessing Mistral's expertise to bolster its market presence in the aerospace sector. Solidifying their position, they secured a long-term contract with Airbus and established a new center in Broughton, UK. Looking ahead, the company anticipates improved revenue growth and EBITDA margins, driven by a strategic focus on vertical and customer diversification, as well as the provision of digital services. **We value the stock on a P/E (x) multiple of 20x to its FY26E EPS INR 28.4, which yields a target price of INR 569 per share (Earlier target price of INR 387 per share). We upgraded our rating to an Accumulate from Hold on the stock.**

Exhibit 1: Financial Performance

Y/E March (INR Mn)	FY23	FY24E	FY25E	FY26E
Revenues	8,136	9,356	10,760	12,374
EBITDA	1,375	1,497	1,829	2,227
EBITDA Margin	16.90%	16.00%	17.00%	18.00%
Adj EBITDA	1,242	1,497	1,829	2,227
Adj EBITDA Margin	15.12%	16.00%	17.00%	18.00%
PAT	-47	620	799	1,079
EPS	-1.4	16.4	21.1	28.4
Adjusted EPS	16.6	16.4	21.1	28.4
PE	-362.8	30.4	23.6	17.5

Source: Arihant Research, Company Filings

Exhibit 2: Q1FY24 - Quarterly Performance (Consolidated)

Particulars (INR Mn)	Q1FY24	Q4FY23	Q1FY23	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	26.20	27.70	23.60	-5.4%	11.0%
Revenue	2,136	2,232	1,833	-4.3%	16.6%
Other operating Income	10	28	10	-64.7%	-1.1%
Other Income	17	11	27	54.5%	-37.0%
Total Revenue	2,163	2,271	1,870	-4.8%	15.7%
Cost of Material consumed	396	522	430	-24.1%	-8.0%
Employee Benefit Exp	1,089	854	878	27.5%	24.0%
Other Expenses	322	417	297	-22.8%	8.3%
EBITDA	330	440	228	-25.0%	44.9%
EBITDA margin %	15.4%	19.7%	12.4%	-427bps	302bps
EBITDA margin %	15.4%	19.7%	12.4%	-427bps	302bps
Deducting-Net one time item	-	133	-	-	-
Adj. EBITDA	330	307	228	7.5%	44.9%
Adj. EBITDA margin %	15.4%	13.7%	12.4%	169bps	302bps
Depreciation	71	67	64	4.9%	10.6%
EBIT	259	372	164	-30.5%	58.3%
Margin	76.6%	76.3%	8.9%	30bps	6768bps
Finance cost	201	141	18	42.1%	1016.7%
PBT before exceptional item	84.8	270.0	182.5	-68.6%	-53.5%
PBT After exceptional item	84.8	270.0	182.5		
Exceptional Item	-	-	-445	-	-
Share in loss of associate, net of tax	-	-	-0	-	-
Tax Expense	28	109	54	-74.6%	-48.7%
Effective tax rate %	32.7%	40.4%	29.6%	-	-
Company level PAT	57.11	160.95	-317	-64.5%	-118.0%
Adj Pat margins	2.7%	7.2%	-17.3%	721bps	721bps
EPS (INR)	1.47	4.17	-8.38	-	-

Exhibit 3: Revenue Matrix

Revenue by Vertical	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Engineering Design Services	71.30%	67.20%	72.20%	0.80%	11.00%
Strategic Technology Solutions	28.70%	32.80%	27.80%	-16.90%	16.60%
Revenue by Industry	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Aerospace	29.80%	28.00%	26.90%	2.20%	29.40%
HEG & Others	18.50%	18.10%	23.00%	-2.40%	-6.60%
Product Engineering Services	14.40%	12.90%	16.90%	6.90%	-0.60%
AIP	6.20%	5.50%	3.20%	9.40%	128.50%
Energy	2.30%	2.20%	2.20%	0.20%	24.60%
Products and Solutions	28.70%	33.20%	27.80%	-16.90%	20.30%
Revenue By Geography	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Europe	33.50%	28.30%	40.10%	13.40%	-2.70%
USA	30.90%	28.10%	34.40%	5.50%	4.70%
APAC	31.10%	38.50%	21.40%	-22.50%	69.60%
Canada	4.50%	5.00%	4.10%	-14.60%	28.60%
Revenue by Location	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Offshore	76.60%	76.30%	74.90%	30bps	170bps
Onsite	23.40%	23.70%	25.10%	-30bps	-170bps
Revenue by Project	Q1FY24	Q4FY23	Q1FY23	QoQ	YoY
Fixed Price	64.20%	65.80%	60.10%		
Time & Material	35.80%	34.20%	39.90%		

Source: Arianth Research, Company Filings

Conference Call Highlights

In FY24, the company aims to maintain its well-governed profitability while delivering products to global clients. The company has consistently sustained a level of ~15% and aspires to achieve 18-19% in the near term.

Aerospace

The Aerospace vertical grew by 29.4% Y-o-Y. This vertical is showing growth since last 10 quarters. The outlook of this vertical is positive on account of newer services offering to existing clients in newer locations. The synergies between AXISCADES and Mistral are showing positive result and the discussion is in progress on supporting Indian Defense project on mechanical side. The availability of skilled resources continue to remain challenging

Product Engineering Services

Mistral's Product & Engineering services business maintained stability YoY, and the government's Make in India initiative for semiconductors presents opportunities, leveraging design service advantage; furthermore, the automotive vertical's growing electronic component adoption holds substantial revenue potential.

AIP & Energy

Driven by new client additions, the automotive vertical surged by 128.5% YoY, while the Energy Vertical grew by 24.6%, both contributing significantly to the company's revenue, alongside partnerships with major clients and oil and gas manufacturers.

New Management

The company has onboarded S Christopher, the former DRDO chairman. His appointment as Non-Executive Non-Independent Director is from June 30, 2023. It will greatly enhance strategic capabilities and contribute significantly to enhance the company's offerings in advanced defense solutions to the global customers and Indian defense

Semicon: There was a minor deceleration in the first quarter, but an upturn is expected in the third quarter of FY24, aided by government initiatives. The company collaborates with worldwide OEMs and is engaged with a semiconductor design firm. Notably, the company has secured agreements with two prominent brands in this particular segment.

Defence: The revenue generated from production is situated in the upstream sector and is anticipated to experience growth over the coming 1-2 years. The company is positive for the future growth.

Client: The company aims to increase revenue by targeting clients in sectors like heavy engineering and transitioning towards digital and embedded spaces, moving away from conventional practices. It is leveraging supplier relationships to conduct workshops and explore cross-selling opportunities in aerospace and heavy engineering. Moreover, the company is venturing into new segments like semiconductors through Mistral, while simultaneously prioritizing the acquisition of domain expertise and new clients, following a phased approach.

Pipeline:

Add solution: The company possesses strong software testing skills and is witnessing a twofold growth potential in emerging OEM markets. The majority of investments are directed towards ADAS and innovative technologies. The company also enjoys a positive outlook on its revenue prospects.

Mistral: This year, defense investment takes a new approach with INR 15 crore in Q1FY24 vs total INR 35 cr FY23. Despite project delays, Mistral's revenue surged by 30% YoY, while Axiscades Aerospace & Technologies saw a 23% decline yet remained profitable. The company has positive outlook on this going forward.

Automotive: The company started working with large client in UK and one large client with presence in India and US. Also with 2 tier 1 company. The company is not looking for the any acquisition in the segment.

30% in embedded and 70% in technological.

In FY24, there is a heightened emphasis on the recovery of the heavy engineering sector.

India has successfully executed a sonar program in electronics and traction.

Progressing with drones, the company is currently in field trials, anticipating product readiness in the in the coming year.

Regarding the QIP, the company is considering the option for either the near term or long term, but not at the moment.

Exhibit 4: Revenue trends

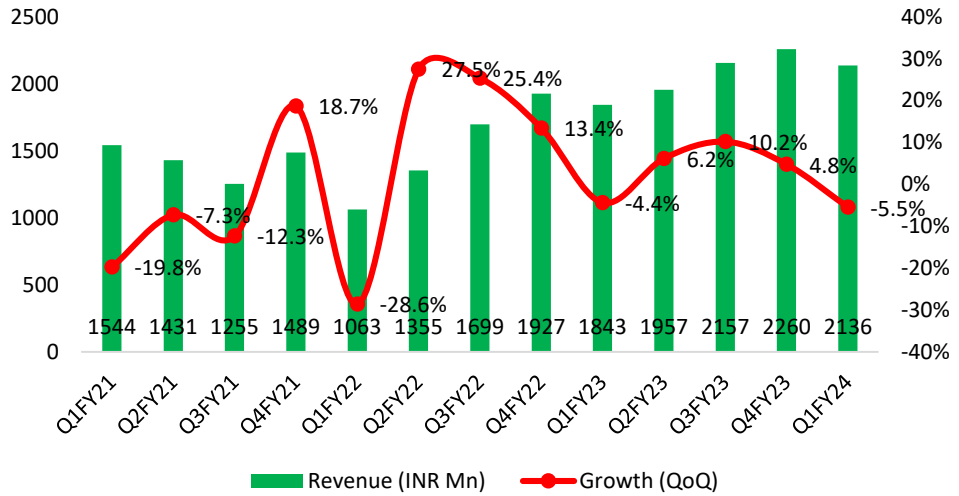


Exhibit 5: Margin expansion led by strong top line growth

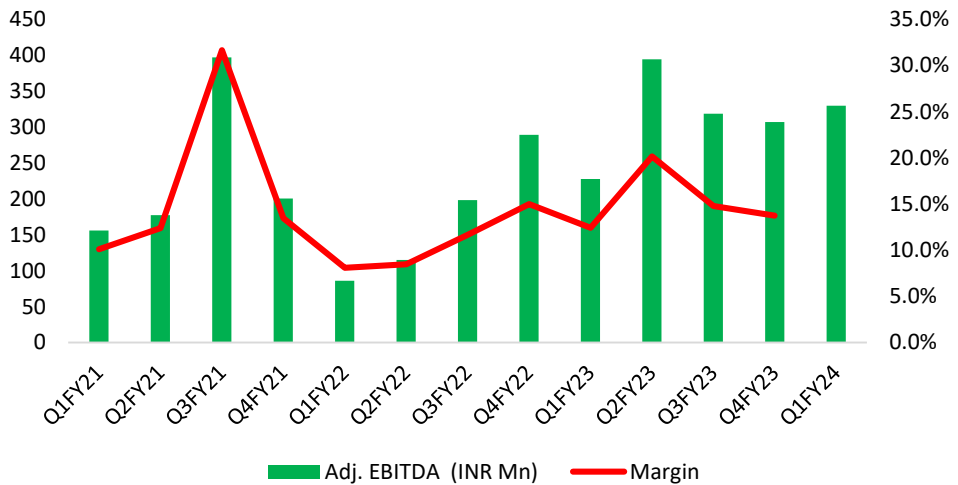
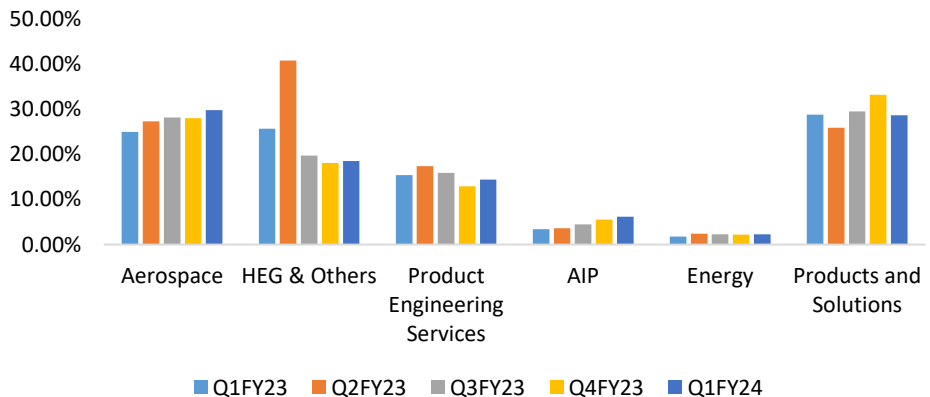


Exhibit 6: Good growth across the segment except HEG



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Y/E March (INR Mn)	FY23	FY24E	FY25E	FY26E
Revenues	8,136	9,356	10,760	12,374
Change (%)	30.0%	15.0%	15.0%	15.0%
Other operating income	80.17	80.17	80.17	80.17
Raw materials	1,792	1,899	2,174	2,500
Employee costs	3,609	4,351	5,186	5,927
Other expenses	1,360	1,609	1,571	1,720
Total Expenses	6,761	7,859	8,931	10,147
EBITDA	1,375	1,497	1,829	2,227
EBITDA Margin	16.9%	16.0%	17.0%	18.0%
Deducting-Net one time item	133	-	-	-
Adj. EBITDA	1242	1,497	1,829	2,227
Adj. EBITDA margin %	15.12%	16.00%	17.00%	18.00%
Depreciation	265	336	427	439
EBIT	1,110	1,161	1,402	1,788
EBIT Margin (%)	13.64%	12.41%	13.03%	14.45%
Other Income	60	75	86	99
Interest	359	349	345	345
PBT	891	886	1,143	1,542
Extra-ordinary	-680	-	-	-
PBT after ext-ord.	211	886	1,142	1,541
Tax	258	266	343	462
Rate (%)	122.3%	30.0%	30.0%	30.0%
PAT	-47	620	799	1,079
Adjusted PAT	632.8	620	800	1,079

Cash Flow Statement				
Y/E March (INR Mn)	FY23	FY24E	FY25E	FY26E
PBT	211	886	1,142	1,541
Depreciation	265	336	427	439
Interest & others	299	274	259	246
Cash flow before WC changes	775	1,496	1,828	2,226
(Inc)/dec in working capital	-1,837	330	16	7
Operating CF after WC changes	-1,062	1,826	1,844	2,233
Less: Taxes	-258	-266	-343	-462
Operating cash flow	-1,320	1,560	1,501	1,771
(Inc)/dec in F.A + CWIP	312	-200	-100	-99
(Pur)/sale of investment	503.14	-	-	-
Cash flow from investing	815	-200	-100	-99
Free cash flow (FCF)	-1,220	1,360	1,401	1,672
Loan raised/(repaid)	2,652	-	-	-
Equity raised	1.43	-	-	-
Interest & others	-2,200	1,580	-259	-246
Dividend	-	-	-	-
Cash flow from financing activities	454	1,580	-259	-246
Net inc/(dec) in cash	-52	2,940	1,142	1,425
Opening balance of cash	1,054	996	3,936	5,078
Closing balance of cash	1,002	3,936	5,078	6,503

Balance Sheet				
Y/E March (INR Mn)	FY23	FY24E	FY25E	FY26E
Sources of Funds				
Share Capital	191	191	191	191
Reserves & Surplus	3,190	3,809	4,608	5,685
Net Worth	3,381	4,000	4,799	5,877
Loan Funds				
	3,140	3,140	3,140	3,140
Deferred Tax & other liabilities	-	-	-	-
Capital Employed	6,579	7,198	7,997	9,074
Application of Funds				
Gross Block	3,360	3,560	3,660	3,759
Less: Accumulated Depreciation	1,591	1,927	2,354	2,793
Net Block	1,770	1,634	1,307	966
CWIP	-	-	-	-
Other non current assets	201	201	201	201
Deferred tax assets	198	198	198	198
Net fixed assets	2,169	2,033	1,706	1,366
Investments	335	335	335	335
Debtors	1,790	2,059	2,368	2,723
Inventories	659	697	798	924
Cash & bank balance	996	3,936	5,078	6,503
Loans & advances & other CA	106	106	106	106
Total current assets	5,143	6,798	8,349	10,256
Current liabilities	2,198	2,835	3,260	3,749
Provisions	267	267	267	267
Net current assets	2,678	3,696	4,822	6,240
Total Assets	6,579	7,198	7,997	9,074

Key Ratios				
Y/E March (INR Mn)	FY23	FY24E	FY25E	FY26E
Per share (INR)				
EPS	-1.4	16.4	21.1	28.4
Adjusted EPS	16.6	16.4	21.1	28.4
CEPS	5.7	25.2	32.3	40.0
BVPS	89.1	105.4	126.5	154.9
DPS	-	-	-	-
Payout (%)	-	-	-	-
Valuation (x)				
P/E	-362.8	30.4	23.6	17.5
P/CEPS	86.7	19.7	15.4	12.4
P/BV	5.6	4.7	3.9	3.2
EV/EBITDA	15.3	12.1	9.3	7.0
Dividend Yield (%)	-	-	-	-
Return Ratio (%)				
EBITDA Margin	16.9%	16.0%	17.0%	18.0%
PAT Margin	-0.6%	6.6%	7.4%	8.7%
ROE	-1.4%	15.5%	16.6%	18.3%
ROCE	16.9%	16.1%	17.5%	19.7%
Leverage Ratio (%)				
Total D/E	0.93	0.78	0.65	0.53
Net D/E	0.6	-0.2	-0.4	-0.6
Turnover Ratios				
Asset Turnover (x)	1.2	1.3	1.3	1.4
Inventory Days	134	134	134	135
Receivable Days	80	80	80	80
Payable days	111	111	111	111

Source: Arianth Research, Company Filings

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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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