

CMP: INR 320

Rating: Accumulate

Target Price: INR 401

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)	12,908
52w H/L (INR)	385 / 82
Avg Yearly Vol (in 000')	146

Shareholding Pattern %

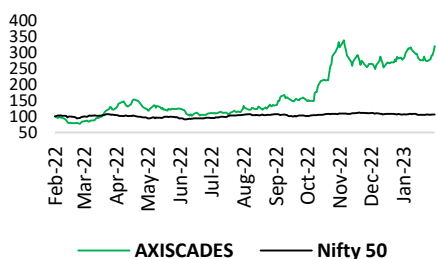
(As on Dec, 2022)

Promoters	66.2
Public & Others	33.8

Stock Performance (%)

	1m	6m	12m
AxisCades	2.14	152	219.2
Nifty	-1.02	-0.29	5.52

Axiscades Vs Nifty



Abhishek Jain
abhishek.jain@arihantcapital.com
022 67114851

Jyoti Singh
jyoti.singh@arihantcapital.com
022 67114834

AXISCADES Technologies reported a strong top-line performance but dragged in the bottom line due to an exceptional loss.

Revenue ahead of estimates driven by double-digit growth across verticals: Reported revenue of INR 2,157 Mn (up 10.2% QoQ/26.9% YoY) above our estimate of INR 1,988 Mn. The growth is driven by double-digit growth in the Aerospace, Automotive, and Product & Solutions Vertical. US \$26.2 Mn against US \$24.7 Mn, up by 15.4% YoY/7.8% QoQ. Engineering Design has grown by 26.0% Y-o-Y mainly due to growing contributions from existing customers in Aerospace, Product Engineering Services, and recently added clients in AIP verticals. Strategic Technology Solutions has delivered strong growth of 29.3% on account of the strong recovery in the sub-segment. Aerospace continues to grow and is up by 42.4% Y-o-Y. The growth is attributable to recovery in the sector and increased business from existing clients. AIP grew by 67.3% driven by the ramp up in recently added clients

Expansion in EBITDA Margin annually; driven by growth in key accounts and operating leverage: EBITDA margin expanded by 309bps YoY/-537 QoQ at 14.8% against our estimates of 20.3%. Margin improved annually driven by growth in key accounts and operating leverage. While margin declined sequentially mainly due to services revenue which was booked by our 100% subsidiary in Q2FY23. (In Q3 and 9M FY23, the consolidated P&L statement recognizes an 'exceptional item', with a net negative impact of INR (236)Mn and INR (680) Mn respectively on account of additional consideration and interest cost on acquisition awarded by the Arbitration Tribunal for the Mistral acquisition, which was not part of earlier purchase consideration and interest on Optionally Convertible Debentures relating to Mistral acquisition).

Outlook & Valuation

AXISCADES Technologies reported a strong top-line performance but dragged in the bottom line due to an exceptional loss and strong order pipeline for the next 3-4 years. Completed the acquisition of Mistral Solutions Private Ltd., The synergy between AXISCADES and Mistral offers both parties the impetus to create IP's, broadening service offerings leading to substantial business growth This acquisition is EPS accretive. Going forward, we will see improvement in revenue growth and EBITDA margin. The company is going to follow these three strategies, 1) Vertical diversification, 2) Customer diversification, and 3) Digital Services offering. **We value the stock on a P/E (x) multiple of 15x to its FY25E EPS INR 26.8, which yields a target price of INR 401 per share (Earlier target price of INR 394 per share). We maintain our Accumulate rating on the stock**

Exhibit 1: Financial Performance

Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Revenues	6,103	7,928	9,115	10,752
EBITDA	706	1,308	1,549	2,011
EBITDA Margin	11.57%	16.50%	17.00%	18.70%
PAT	227	59	636	1,008
EPS	8.1	15.8	16.9	26.8
ROE	6.7%	0.7%	7.4%	7.5%
PE	39.5	20.3	18.9	12.0

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY23 - Quarterly Performance (Consolidated)

Particulars (INR Mn)	Q3FY23	Q2FY23	Q3FY22	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	26.2	24.30	22.7	7.8%	15.4%
Net Revenue	2,157	1,957	1,699	10.2%	26.9%
Raw Material Cost	505	336	398	50.5%	26.9%
Employee cost	978	899	813	8.8%	20.3%
Other Expenses	355	328	290	8.1%	22.4%
EBITDA	319	394	198	-19.2%	60.6%
EBITDA margin %	14.8%	20.1%	11.7%	-537bps	309bps
Other Income	18.31	42	3	-56.7%	549.3%
Depreciation	63	71	61	-10.6%	3.4%
EBIT	273	366	140	-25.2%	95.5%
Margin	12.7%	18.7%	8%	-600bps	445bps
Finance cost	115	85	36	35.9%	220.4%
PBT before exceptional item	158.339	281	104	-43.6%	52.3%
Exceptional Item	-236	-	-	-	-
PBT After exceptional item	-78	281	104	-	-
Tax Expense	25	70	23	-64.6%	5.6%
Effective tax rate %	15.7%	25.0%	22.6%	-929bps	-692bps
Company level PAT	-102	211	80.5	-148.5%	-227.2%
share of P/(L) Associates	-	-	-1.2	-	-
non-controlling	1	1	1	12.6%	2.3%
Adj PAT	132.39	209.80	78.13	-36.9%	69.4%
Adj Pat margins	6.1%	10.5%	4.6%	-441bps	150bps
EPS (INR)	-2.72	5.52	2.07	-	-
Adj.EPS (INR)	3.49	5.53	2.06	-	-

Segment revenue

Particulars (INR Mn)	Q3FY23	Q2FY23	Q2FY23	Q-o-Q	Y-o-Y
Technology Services and Solutions	1,527	1,455	1,212	4.9%	26.0%
Strategic technology solutions	630	502	487	25.4%	29.3%
Total	2,157	1,957	1,699	10.2%	26.9%

Exhibit 3: Revenue Matrix

Revenue by Vertical	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY
Engineering Design Services	70.80%	74.30%	71.30%	4.90%	15.30%
Strategic Technology Solutions	29.20%	25.70%	28.70%	25.40%	26.10%
Revenue by Industry	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY
Aerospace	28.20%	27.30%	25.00%	13.50%	42.40%
HEG & Others	19.70%	40.80%	25.70%	-7.20%	-3.40%
Product Engineering Services	15.90%	17.40%	15.40%	0.20%	29.80%
AIP	4.50%	3.60%	3.40%	38.70%	67.30%
Energy	2.30%	2.40%	1.80%	4.70%	62.00%
Products and Solutions	29.50%	25.90%	28.80%	25.70%	29.30%
Revenue By Geography	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY
Europe	34.20%	36.00%	40.90%	4.70%	-9.10%
USA	32.70%	36.50%	35.30%	-1.20%	17.00%
APAC	28.70%	22.80%	18.80%	38.60%	92.30%
Canada	4.40%	4.70%	5.00%	2.60%	12.30%
Revenue by Location	Q3FY23	Q2FY23	Q3FY22		
Offshore	76.10%	75.10%	72.60%		
Onsite	23.90%	24.90%	27.40%		
Revenue by Project	Q3FY23	Q2FY23	Q3FY22		
Fixed Price	60.90%	58.70%	58.80%		
Time & Material	39.10%	41.30%	41.20%		

Source: Arihant Research, Company Filings

Conference Call Highlights

- **Awarded a contract by Airbus** for the fourth time. The mandate includes engineering services, with significantly enhanced scope, following a rigorous Joint Sourcing Optimization campaign. This contract renewal will entail niche engineering services on product development and plant engineering across Fuselage & Wings, covering different locations and divisions.
- **Completed the acquisition** of Mistral Solutions Private Ltd., a leader in Semiconductor, Embedded Electronics, Defence and Product Engineering capabilities. The acquisition, which was initiated in the year 2017, was executed over 4 phases at an aggregate acquisition cost of INR 296 crores. This acquisition will provide us a complementary customer base and opportunities to cross-sell and expand product and service portfolios, along with the ability to offer global clientele, latest technologies in embedded electronics and chip design.
- **Aerospace:** The Aerospace vertical grew by 42.4% YoY. The resurgence of the aviation industry, new client wins, and newer area of business has enabled the increase of wallet share from existing clients. Fourth time that the company has been awarded a contract by Airbus, for engineering services, with significantly enhanced scope, following a rigorous Joint Sourcing Optimisation campaign. This contract renewal will entail niche engineering services on product development and plant engineering across Fuselage & Wings, covering different locations and divisions
- The company will continue to focus to improve revenue growth and EBITDA margin. The company is going to follow these three strategies, 1) Vertical diversification, 2) Customer diversification, and 3) Digital Services offering. The company will continue to invest in technologies of the future such as embedded software AIML, PLM on the cloud and industry 4.0.
- **The company has strengthened marketing team.** Both in India and overseas. Who are working toward creating more strategic logos, expanding the customer base as well as leveraging the competencies of Mistral.
- **Revenue Mix & Margin:** The parent company is contributing 56% of revenue (Margin 14.1%) Mistral is contributing 34% of revenue (15.4% EBITDA margin) and Axiscades aerospace is contributing 10% of revenue (EBITDA margin 14%)
- In Q3 and 9M FY23, consolidated P&L statement recognizes an 'exceptional item', with net negative impact of INR (236)Mn and INR (680) Mn respectively on account of additional consideration and interest cost on acquisition awarded by the Arbitration Tribunal for the Mistral acquisition, which was not part of earlier purchase consideration and interest on Optionally Convertible Debentures relating to Mistral acquisition. The company took the incremental debt of 215 cr noticeable higher interest rate due to the urgency to close deal.
- FY24, the company's focus will be on the optimization of the working capital, refinance, reduce debt and reduce the gap between the EBITDA and cash flow. The company has a target to do 400-500 bps in the next 3 years and target to reach 20%. Industry leading growth beyond 15-18%.
- As the company mentioned during the previous earnings call, the company wanting to **write primary capital of INR 100 cr** plus to pay down the debt as well as price growth capital. The mandate have been issued. Hopefully, the company will have something positive to report in next quarter.
- The company concluded the acquisition of Mistral Solutions in this quarter. This is a value accretive asset for the Company, which will help the company expand capabilities and offerings in semiconductor, defense and homeland security. The company has also announced additional contract wins in new focus areas and the extension of a long-standing relationship with Airbus for the fourth time.
- **The integration is going very smoothly and working with the Mistral management** together. The company is also encouraging Mistral employees to work in the Axiscades office. It is expected to be completed by 6 months.
- **Encouraging the focus on the strategic account and focus** on the 2 strategic account and more on project business don't want to do commodity based business. The company has done a lot of stakeholders and is also recognized in terms of going forward.
- **Synergy:** Mistral has very strong embedded electronic services. In the engineering world. 1) Mistral works with defence labs DRDO-LRDE, HAL, BAL and Axiscades defence services working with arm forces like antidrone system. So, both together are covering all the spectrum. 2) all the vertical automotive, heavy engineering (Mechanical engineering), Energy. There is huge place to take embedded service. Impact will be seen on the top line as address more clients business.
- **ER&D strategy 15-19%** and grow beyond the industry growth. Focusing on the EBITDA. More opportunities than the people.
- **ESOP:** Mr. Arun Krishnamurthi, CEO & MD has 4 % ESOP and Shashidhar SK - Group Chief Financial Officer has 3% stakeholder. The management mentioned that everything is Performance based.
- The company is doing internal automation so that the company can reduce headcount and utilize employees in a different place.
- There is a big application radar that the company is doing in the auto segment and leveraging Mistral synergy in this.
- **ER&D industry grow by 15-16%** last year and Axiscades surpassed this growth rate. The company will continue to outperform the industry.
- **\$75 Mn order book** and next year will be carried forward \$ 40-45 mn next year
- **Order pipeline:** The company \$280mn. Mistral alone got INR 3000 cr is very much in the pocket. Sales will be seeing over next 6-7 years.
- **Headcount:** Added 800 people in the Q3FY23 including all the entity 2800 employees. The company, currently 150 fresher's (6-month training class room+ seniors)So, expects next year all will be utilized. The company is utilizing 85-88%.
- **Interest cost:** This quarter is the peak interest cost due to debt that the company has taken for the acquisition.
- **The company is looking for the acquisition** 1) Energy space 2) Industry space like Product life cycle management. The company is not looking very big but to be in the range of \$1-10mn company (100 employee).The company is planning to acquire something in Europe.
- **Top 5 customers have come down in 9M from 63% in terms of last year to 57%.** They contributed about \$17.5 mn of total \$74 mn, adding a \$13.6 mn which they contributed last year. So, they are growing by about 30%, which is also a good thing to absorb..
- The company will add four strategic accounts by FY24.
- **In the energy,** the company is working with one big company.

Exhibit 4: Strong growth in top line lead by double digit growth across the segments

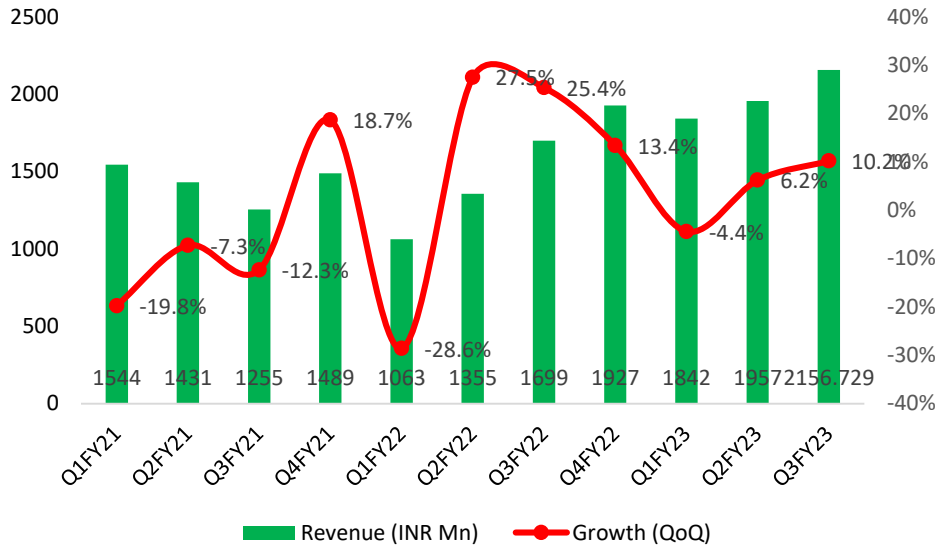


Exhibit 5: Margin declined sequentially mainly due to services revenue

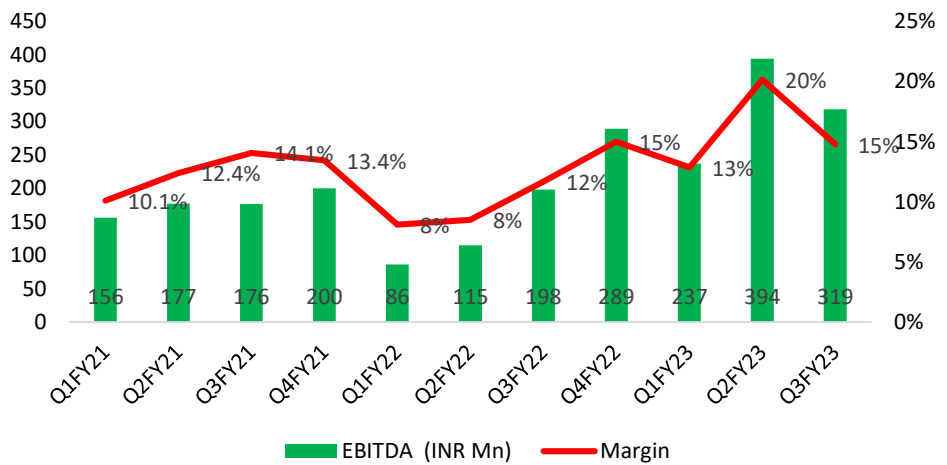
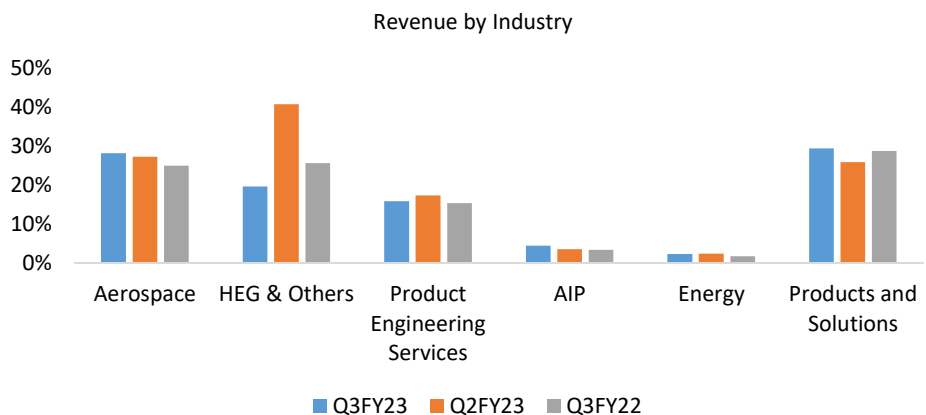


Exhibit 6: Robust growth across the segment



Source: Aриhant Research, Company Filings

Key Financials

Income Statement				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Revenues	6,103	7,928	9,115	10,752
<i>Change (%)</i>	16.5%	30.0%	15.0%	18.0%
Raw materials	1,167	1,189	1,440	1,699
Employee costs	3,121	4,321	4,849	5,537
Other expenses	1,109	1,110	1,276	1,505
Total Expenses	5,397	6,620	7,565	8,741
EBITDA	706	1,308	1,549	2,011
Other Income	91	95	109	129
Depreciation	251	270	348	350
Interest	158	366	488	488
PBT	389	767	823	1,302
Extra-ordinary	-17	-680	-	-
PBT after ext-ord.	368	82	816	1,293
Tax	141	23	180	284
<i>Rate (%)</i>	21.0%	22.0%	22.0%	22.0%
PAT	227	59	636	1,008
MI & Associates	-5	-6	-7	-9
Adjusted PAT	307	599	642	1,015
<i>Change (%)</i>	0.0%	-76%	1083%	58.8%

Balance Sheet				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Sources of Funds				
Share Capital	190	190	190	190
Reserves & Surplus	3,123	7,112	8,370	13,137
Net Worth	3,313	7,302	8,560	13,327
Loan Funds	488	2,438	2,438	2,438
Deferred Tax & other liabilities	-	-	-	-
Capital Employed	3,854	9,793	11,052	15,818
Application of Funds				
Gross Block	3,001	2,901	2,801	2,701
Less: Accumulated Depreciation	1,326	1,597	1,945	2,295
Net Block	1,675	1,305	857	406
CWIP	-	-	-	-
Other non current assets	350	350	350	350
Deferred tax assets	280	280	280	280
Net fixed assets	2,305	1,935	1,487	1,036
Investments	838	838	838	838
Debtors	1,452	1,890	2,173	2,563
Inventories	516	525	635	749
Cash & bank balance	1,054	8,670	10,782	16,596
Loans & advances & other CA	391	391	391	391
Total current assets	3,412	11,476	13,980	20,299
Current liabilities	3,869	5,334	6,132	7,233
Provisions	237	237	237	237
Net current assets	(694)	5,905	7,612	12,828
Total Assets	3,854	9,793	11,052	15,818

Cash Flow Statement				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
PBT	368	82	816	1,293
Depreciation	251	270	348	350
Interest & others	62	265	371	350
Cash flow before WC changes	680	617	1,535	1,993
(Inc)/dec in working capital	1,087	1,018	405	597
Operating CF after WC changes	1,767	1,634	1,940	2,590
Less: Taxes	(141)	(23)	(180)	(284)
Operating cash flow	1,626	1,612	1,760	2,305
(Inc)/dec in F.A + CWIP	139	100	100	100
(Pur)/sale of investment	44	-	-	-
Cash flow from investing	183	100	100	100
Free cash flow (FCF)	1,826	1,712	1,860	2,405
Loan raised/(repaid)	(26)	1,950	-	-
Equity raised	1	-	-	-
Interest & others	(154)	3,955	251	3,409
Dividend	-	-	-	-
Cash flow from financing activities	(180)	5,905	251	3,409
Net inc / (dec) in cash	1,630	7,617	2,111	5,814
Opening balance of cash	848	1,054	8,670	10,782
Closing balance of cash	2,478	8,670	10,782	16,596

Key Ratios				
Y/E March (INR Mn)	FY22	FY23E	FY24E	FY25E
Per share (Rs)				
EPS	8.1	15.8	16.9	26.8
CEPS	12.5	8.5	25.8	35.6
BVPS	87.3	192.4	225.6	351.2
DPS	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%
Valuation (x)				
P/E	39.5	20.3	18.9	12.0
P/CEPS	25.7	37.6	12.4	9.0
P/BV	3.7	1.7	1.4	0.9
EV/EBITDA	16.4	4.5	2.5	-1.0
Dividend Yield (%)	-	-	-	-
Return Ratio (%)				
EBITDA Margin	11.6%	16.5%	17.0%	18.7%
PAT Margin	3.6%	0.7%	6.9%	9.3%
ROE	6.7%	0.7%	7.4%	7.5%
ROCE	11.8%	10.6%	10.9%	10.5%
Leverage Ratio (%)				
Total D/E	0.15	0.33	0.28	0.18
Net D/E	-0.2	-0.9	-1.0	-1.1
Turnover Ratios				
Asset Turnover (x)	1.6	0.8	0.8	0.7
Inventory Days	161	161	161	161
Receivable Days	87	87	87	87
Payable days	246	246	246	246

Source: Arianth Research, Company Filings

Arihant Research DeskEmail: instresearch@arihantcapital.com

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 st 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	www.arihantcapital.com	research@arihantcapital.com

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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