

CMP: INR 723

Rating: Accumulate

Target Price: INR 819

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)	28,381
52w H/L (INR)	850/248
Avg Yearly Vol (in 000')	212

Shareholding Pattern %

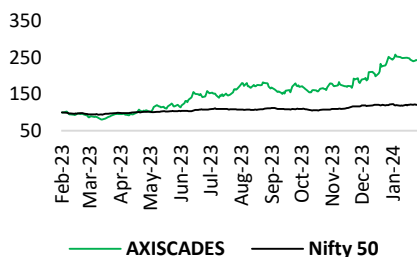
(As on Dec, 2023)

Promoters	65.74
Public & Others	33.79

Stock Performance (%)

	1m	3m	12m
AxisCades	-5.8	28.8	12.9
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 revenue of INR 2,315 Mn (down by 8% QoQ/ up 8.5% YoY) below our estimate of INR 2560 Mn by Technology Services and Solutions. Revenue USD de-grew by 7.8% QoQ/+7.6% YoY to \$28.2. Segment Technology Services and Solutions grew by 2.4% QoQ/20% YoY while Strategic technology solutions de-grew by 33% QoQ/-22% YoY. Adjusted EBITDA margin contraction by 161bps QoQ/ +124bps YoY at 12.6% against our estimate of 14.9% led by an increase in employee & Other expenses. The company reported adj PAT of INR 75.39 Mn de-grew by 33% QoQ against our estimate of INR 141 Mn. Segments: Aerospace vertical hits record revenue, up 27% YoY; Heavy and Product Engineering Services subdued, focusing on digital opportunities; AIP grows 257% YoY with client additions; Europe up 39%, Canada up 4% driven by Automotive and Aerospace. The Company successfully concluded the Equity Raise of INR 2200 Mn in January 2024, with marquee Institutional Investors subscribing to the issue. This will strengthen the balance sheet and improve profitability, in the coming periods.

EPCOGEN's recent acquisition aims to significantly boost the current 3% revenue share per energy vertical, foreseeing aggressive growth in oil, gas, renewables, and infrastructure. Despite potential initial margin dilution, the company strategically positions itself for long-term success, with plans to establish a Middle East presence enhancing its global footprint. EPCOGEN, headquartered in Chennai with additional presence in Bangalore and Hyderabad, demonstrates commendable year-on-year revenue growth and a clear vision for sustained expansion in the dynamic energy sector.

Defence Business Dynamics and Growth Strategy

The defense business, constituting 26% of revenues, exhibits quarter-to-quarter variability, resulting in a 22% YoY decline due to uneven production orders. This lumpiness influences margin fluctuations. Despite this, a robust pipeline and order book signal sustained YoY growth, exemplified by a threefold increase in production revenues to 710 Mn in 9MFY24. To mitigate volatility, strategic initiatives over the last two years focus on exploring export opportunities for defense systems and services to prospective overseas clients, aligning with our commitment to long-term stability and expansion.

Outlook & Valuation

AXISCADES Technologies reported a decent Q3FY24 performance, driven by new client additions and substantial growth across segments, targeting an 18% margin in the near term; furthermore, despite QoQ variability, the defense business, contributing 26% to revenues, achieved a remarkable threefold increase in production revenues to 710 Mn in 9MFY24, propelled by a strong order pipeline and strategic initiatives over the past two years. Additionally, EPCOGEN's recent acquisition positions the company for aggressive growth in the energy sector, aiming to significantly boost the current 3% revenue share across oil, gas, renewables, and infrastructure verticals. **We value the stock on a P/E (x) multiple of 35x to its FY26E EPS INR 23.4, which yields a target price of INR 819 per share (Earlier target price of INR 628 per share). We maintain our Accumulate rating on the stock.**

Exhibit 1: Financial Highlights

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	6,103	8,216	9,518	11,594	14,127
EBITDA	706	1,456	1,380	1,797	2,331
EBITDA Margin	11.57%	17.72%	14.50%	15.50%	16.50%
PAT	227	-48	375	640	981
EPS	5.9	-1.4	9.0	15.3	23.4
PE	123.3	-527.5	80.6	47.3	30.9

Source: Arihant Research, Company Filings

Exhibit 2: Q3FY24 - Quarterly Performance (Consolidated)

Particulars (INR Mn) Consolidate	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	28.20	30.60	26.20	-7.8%	7.6%
Revenue	2,315	2,515	2,134	-7.9%	8.5%
Other operating Income	7	10	22	-24.8%	-66.8%
Other Income	16	11	18	44.5%	-10.4%
Total Revenue	2,339	2,536	2,175	-7.8%	7.5%
Cost of Material consumed	343	601	505	-43.0%	-32.2%
Employee Benefit Exp	1,325	1,238	978	7.1%	35.6%
Other Expenses	354	318	355	11.5%	-0.3%
EBITDA	292	358	296	-18.4%	-1.2%
EBITDA margin %	12.6%	14.2%	13.9%	-161bps	-124bps
Deducting-Net one time item	-	-	-	-	-
Adj. EBITDA	292	358	296	-18.4%	-1.2%
Adj. EBITDA margin %	12.6%	14.2%	13.9%	-161bps	-124bps
Depreciation	85	87	63	-2.4%	33.9%
EBIT	207	271	233	-23.5%	-10.8%
Margin	9.0%	10.8%	10.9%	-182bps	-194bps
Finance cost	121	116	115	3.9%	5.2%
PBT before exceptional item	110.3	175.9	158.3	-37.3%	-30.3%
PBT After exceptional item	110.3	175.9	-77.5		
Exceptional Item	-	-	-236	-	-
Share in loss of associate, net of tax					
Tax Expense	35	64	25	-45.6%	40.7%
Effective tax rate %	31.6%	36.5%	15.7%	-	-
Company level PAT	75.39	111.71	-102.34	-32.5%	-173.7%
share of P/(L) Associates	-	-	-	-	-
non-controlling	-	-	-	-	-
Adj PAT	75.39	111.71	133.54	-32.5%	-43.5%
Adj Pat margins	3.3%	4.4%	-4.8%	-119bps	805bps
EPS (INR)	1.93	2.89	1.47	-33.2%	31.3%

Segment revenue

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	Q-o-Q	Y-o-Y
Technology Services and Solutions	1,830	1,786	1,527	2.4%	19.8%
Strategic technology solutions	492	738	630	-33.3%	-21.8%
Total	2,322	2,525	2,157	-8.0%	7.7%

Revenue by Vertical	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Engineering Design Services	78.80%	70.80%	70.80%	2.40%	11.00%
Strategic Technology Solutions	21.20%	29.20%	29.20%	-33.30%	16.60%
Revenue by Industry	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Aerospace	33.10%	25.60%	28.20%	18.90%	27.30%
HEG & Others	15.60%	15.70%	19.70%	-8.70%	-14.20%
Product Engineering Services	12.80%	16.40%	15.90%	-28.10%	-12.20%
AIP	14.10%	10.70%	4.50%	28.50%	257.30%
Energy	3.10%	2.40%	2.30%	20.20%	46.30%
Defence Business	21.30%	29.20%	29.50%	-33.30%	-21.80%
Revenue By Geography	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Europe	43.00%	37.40%	34.20%	31.20%	39.00%
USA	26.30%	29.80%	32.70%	13.10%	-13.00%
APAC	26.40%	28.50%	28.70%	7.60%	-0.20%
Canada	4.20%	4.30%	4.40%	14.00%	4.00%
Revenue by Location	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Offshore	71.20%	77.00%	76.10%	-580bps	-490bps
Onsite	28.80%	23.00%	23.90%	580bps	490bps
Revenue by Project	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY
Fixed Price	66.90%	68.40%	60.90%	-150bps	600bps
Time & Material	33.10%	31.60%	39.10%	150bps	-600bps

Source: Arihant Research, Company Filings

Conference Call Highlights

Sustaining growth momentum with a strong order book, company prioritize continuous margin improvement across multiples and units, having significantly de-risked through diversification, and now directing the focus on accelerating growth and profitability through digital investments.

EPCOGEN (Acquisition completed in December 2023)

With this acquisition, the current revenue share of 3% per energy vertical we expect will significantly grow in the coming periods. The company is also finalizing a go to market strategy with the intent to open an office in the Middle east. The company forecasts aggressive growth on this front across oil and gas, renewables and infrastructure design and development. The acquisition may have initially diluted margins but provides growth potential.

Epcogen, primarily based in Chennai with additional presence in Bangalore and Hyderabad, serves domestic and international clients in oil, gas refineries, power, and green energy sectors, offering comprehensive expertise from front-end engineering to post-award engineering, reflecting commendable YoY revenue growth and a clear vision for sustained expansion in the dynamic energy sector.

Segments

Heavy engineering: Despite challenges in heavy engineering and semiconductor sectors, engineering services business achieved a 20% growth, with heavy engineering contributing 17% (1150 Mn) to total revenues, down by 22% in the previous year, reflecting industry dynamics affected by low capex, macroeconomic sensitivity, and a shift towards increased digitization, automation, and electrification.

Automotive sector's contribution to total revenue increased to 11% from last year's 4%, witnessing over threefold growth in revenues, reaching INR 750 Mn in the 9MFY24, driven by expanding capabilities in wiring harness, software testing, ADAS, and software-defined vehicles.

Diversification Strategy Success: Mistral has successfully executed a three-pronged strategy, focusing on vertical diversification, customer diversification, and a digital-first approach, resulting in derisked operations across six business verticals.

Semiconductor Business Short-Term Setback: The semiconductor production business faces short-term challenges due to the global overproduction and overstocking of semiconductor chips during the pandemic, impacting revenues in the 9MFY24. However, growth is anticipated in the Q2FY25 with the expected flushing out of built-up inventories.

Product Engineering Services Product & Engineering services business, under Mistral, decline by 12% YoY, mainly due to overstocking by customers during the component shortage period that was seen in 2022, which led to decline in production revenue. The NRE services revenue continues to be healthy. Company expect these challenges to continue in short-term and recovery to start from H2FY25 onwards.

Defense Business Performance Variability: The defense business, constituting 26% of revenues, experiences QoQ variability, typical to the industry. While Q3FY24 showed lower revenues and production revenues, the 9MFY24 witnessed a significant threefold increase in production revenues, reaching 710 Mn, backed by a robust order pipeline and strategic initiatives implemented over the last two years.

The government's Make in India initiatives in defense, electronics, and semiconductors offer new opportunities. Mistral's overall strategy remains robust, with a promising defense segment driven by ongoing contracts and a strong pipeline of new opportunities.

Adding 500+ billable resources in 9MFY24, team now exceeds 3000, driving revenue from new customers to 480 Mn (7% of total) from 8 crores (1% in the previous year).

Order Book stands strong at 7060 Mn or \$85 Mn, equivalent to over seven months of revenue, reinforcing confidence and enthusiasm to seize the vast opportunities ahead.

Mistral's semiconductor and product engineering business faces a short-term challenge due to semiconductor overstocking, expecting growth by Q2FY25 recorded 1020 Mn in 9MFY24, contributing to the 20% growth in consolidated revenues to 2370 Mn. EBITDA increased to INR 420 Mn with an 18% margin.

QIP infusion of INR 2200 Mn, with INR 1580 Mn for debt repayment, aims to cut finance costs and fuel corporate growth, leaving market institutional investors with an 8.3% stake.

Digital investments are poised to drive revenues and cost savings, with a strategic shift away from non-margin accretive staffing business with Caterpillar, ultimately enhancing margins in engineering services and supporting acquisition strategies.

Exhibit 4: Revenue trends

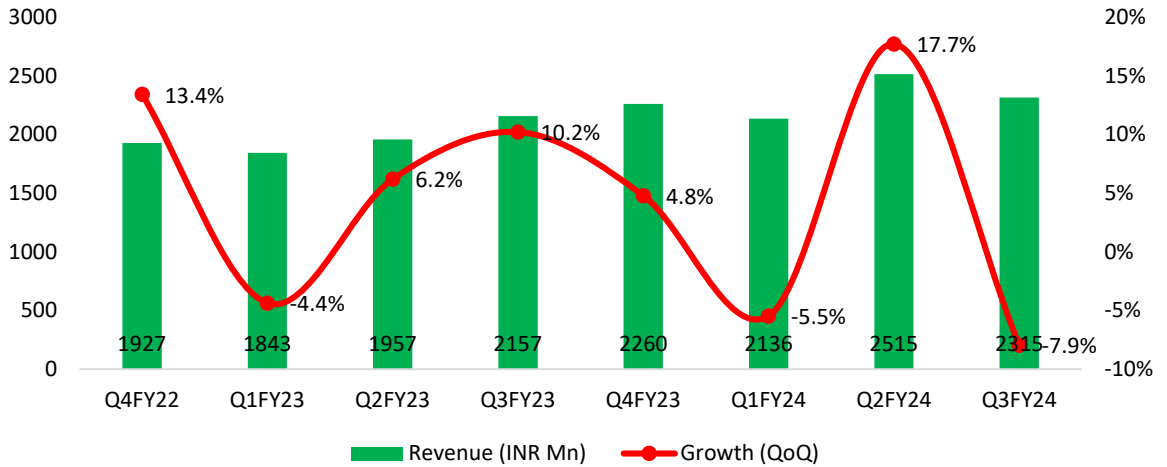


Exhibit 5: Margin expansion led by strong top line growth

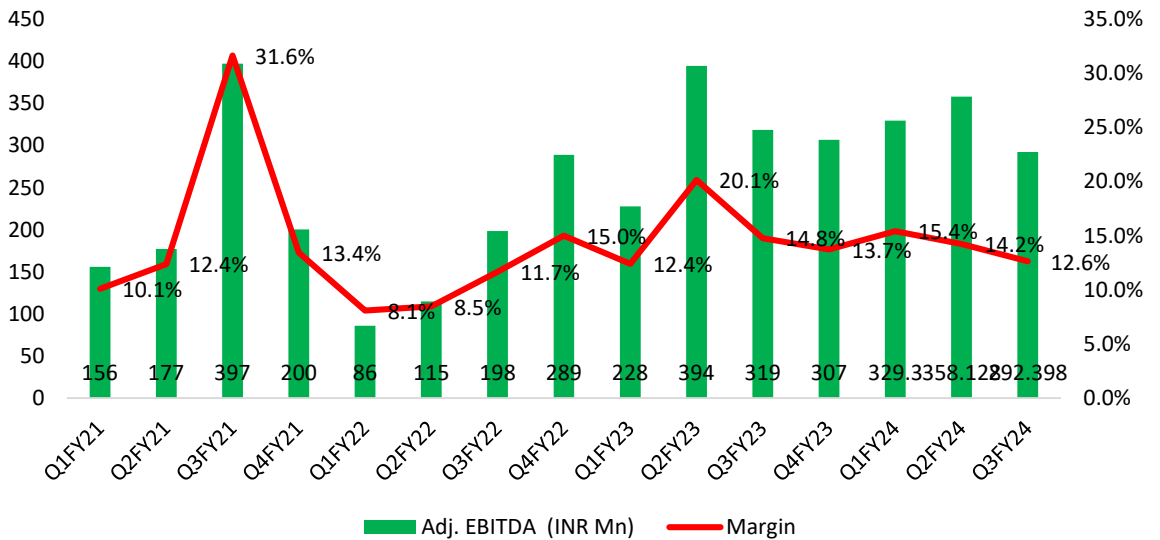
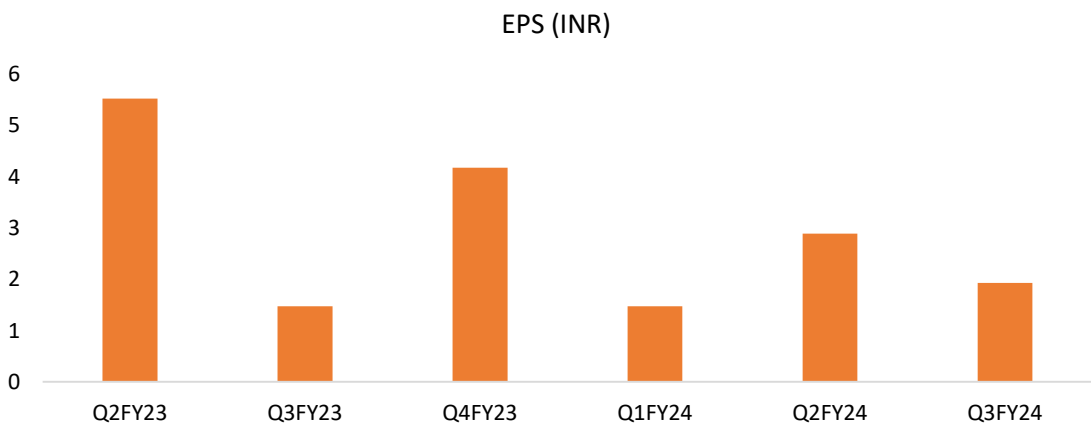


Exhibit 6: Earning trend



Source: Arianth Research, Company Filings

Key Financials

Income Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	6,103	8,216	9,518	11,594	14,127
<i>Change (%)</i>	16.5%	30.0%	16.0%	22.0%	22.0%
Raw materials	1,167	1,792	1,856	2,261	2,684
Employee costs	3,121	3,609	4,759	5,797	6,922
Other expenses	1,109	1,360	1,523	1,739	2,190
Total Expenses	5,397	6,761	8,138	9,797	11,796
EBITDA	706	1,456	1,380	1,797	2,331
EBITDA Margin	11.6%	17.7%	14.5%	15.5%	16.5%
Deducting-Net one time item	-	133	-	-	-
Adj. EBITDA	-	1323	-	-	-
Adj. EBITDA margin %	-	16.10%	-	-	-
Other Income	91	60	114	139	170
Depreciation	251	265	336	427	439
Interest	158	359	550	471	471
PBT	389	891	609	1,038	1,590
Extra-ordinary	-17	-680	-	-	-
PBT after ext-ord.	368	210	608	1,037	1,589
Tax	141	258	233	397	609
<i>Rate (%)</i>	38.3%	122.8%	38.3%	38.3%	38.3%
PAT	227	-48	375	640	981
MI & Associates	-9	-0.4	-1	-1	-1
Adjusted PAT	227	-53	376	640	981
<i>Change (%)</i>	0.0%	0%	0.0%	70.6%	53.3%

Cash Flow Statement					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	368	210	608	1,037	1,589
Depreciation	251	265	336	427	439
Interest & others	58	295	435	331	301
Cash flow before WC changes	676	770	1,379	1,796	2,329
(Inc)/dec in working capital	1,087	(1,837)	352	22	46
Operating CF after WC changes	1,763	(1,067)	1,731	1,818	2,376
Less: Taxes	(141)	(258)	(233)	(397)	(609)
Operating cash flow	1,622	(1,325)	1,498	1,420	1,767
(Inc)/dec in F.A + CWIP	139	312	(200)	(100)	(99)
(Pur)/sale of investment	44	503.14	-	-	-
Cash flow from investing	183	815	(200)	(100)	(99)
Free cash flow (FCF)	1,822	(1,225)	1,298	1,320	1,668
Loan raised/(repaid)	(26)	2,652	-	-	-
Equity raised	1	1.43	1.87	-	-
(1,574)	(2,200)	1,419	(332)	(302)	
Dividend	-	-	-	-	-
Cash flow from financing activities	(1,599)	453	1,421	(332)	(302)
Net inc/(dec) in cash	206	(57)	2,719	989	1,365
Opening balance of cash	848	1,054	996	3,715	4,704
Source: Arianth Research, Company Filings	1,054	996	3,715	4,704	6,069
Closing balance of cash					

Balance Sheet					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of Funds					
Share Capital	189.7	191.2	193	193	193
Reserves & Surplus	3,123	3,190	3,564	4,203	5,183
Net Worth	3,313	3,381	3,757	4,396	5,376
Loan Funds	488	3,140	3,140	3,140	3,140
Deferred Tax & other liabilities	-	-	-	-	-
Capital Employed	3,854	6,579	6,955	7,594	8,574
Application of Funds					
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
CWIP	-	-	-	-	-
Other non current assets	350	201	201	201	201
Deferred tax assets	280	198	198	198	198
Net fixed assets	2,305	2,169	2,033	1,706	1,365
Investments	838	335	335	335	335
Debtors	1,452	1,790	2,074	2,526	3,078
Inventories	516	659	681	830	993
Cash & bank balance	1,054	996	3,715	4,704	6,069
Loans & advances & other CA	391	106	106	106	106
Total current assets	3,412	5,143	6,576	8,166	10,246
Current liabilities	3,869	2,198	2,856	3,479	4,239
Provisions	237	267	267	267	267
Net current assets	(694)	2,678	3,453	4,419	5,740
Total Assets	3,854	6,579	6,955	7,594	8,574

Key Ratios					
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	5.9	-1.4	9.0	15.3	23.4
CEPS	12.6	5.6	17.0	25.5	33.9
BVPS	87.3	89.1	89.7	104.9	128.3
DPS	-	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Valuation (x)					
P/E	123.3	-527.5	80.6	47.3	30.9
P/CEPS	57.4	129.1	42.6	28.4	21.3
P/BV	8.3	8.1	8.1	6.9	5.6
EV/EBITDA	38.0	20.3	21.5	16.0	11.7
Dividend Yield (%)	-	-	-	-	-
Return Ratio (%)					
EBITDA Margin	11.6%	17.7%	14.5%	15.5%	16.5%
PAT Margin	3.7%	-0.6%	3.9%	5.5%	6.9%
ROE	6.8%	-1.6%	10.0%	14.5%	18.2%
ROCE	11.8%	18.1%	15.0%	18.0%	22.1%
Leverage Ratio (%)					
Total D/E	0.15	0.93	0.84	0.71	0.58
Net D/E	-0.2	0.6	-0.2	-0.4	-0.5
Turnover Ratios					
Asset Turnover (x)	1.6	1.2	1.4	1.5	1.6
Inventory Days	161	134	134	134	135
Receivable Days	87	80	80	80	80
Payable days	246	110	110	110	110

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

Disclaimer: This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

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