

CMP: INR 367

Rating: Hold

Target Price: INR 387

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)	13,916
52w H/L (INR)	402 / 108
Avg Yearly Vol (in 000')	137

Shareholding Pattern %

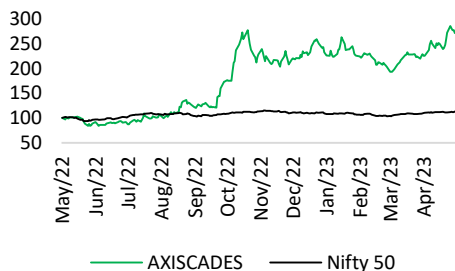
(As on March, 2023)

Promoters	66.2
Public & Others	33.8

Stock Performance (%)

	1m	3m	12m
AxisCades	18.7	20.4	172.7
Nifty	3.8	5.9	14.4

Axiscades Vs Nifty



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

Revenue ahead of estimates driven by good growth in verticals: Reported revenue of INR 2,260 Mn (up 4.8% QoQ/17.3% YoY) above our estimate of INR 2160 Mn. The growth is driven by newer vertical Automotive and Energy (grew by 46.5% YoY/2.0% QoQ) and existing vertical Aerospace (grew by 45.1% YoY/3.8% QoQ), PES (de-grew by 14.8% QoQ/+27% YoY) and Product and Solutions (Defence) (grew by 17.6% QoQ/-3.2% YoY). US \$ 27.7 Mn against US \$27.1 Mn, up by 7.8% YoY/5.7% QoQ.

EBITDA Margin contracted driven by one time cost from US Government: Adjusted EBITDA margin contracted by 19bps YoY/+3bps QoQ at 14.8%. In Q4FY23, the Company received INR 211 Mn from US Government as payroll subsidy for Covid in US entity. The Company also took an additional charge of INR 56.5 Mn in consolidated financial results, on account of share warrants to be issued by Mistral Solutions and INR 21.2 Mn as an additional ESOP charge, resulting in a net onetime benefit of INR 133 Mn, which forms part of EBITDA. The impact is INR 133 Mn for Q4FY23 & FY23. Finance cost has increased mainly due to an increase in borrowing for the Mistral acquisition which is expected to come down in FY24.

The company reported a consolidated PAT of INR 159.11 Mn grew by 51% YoY during Q4FY23. In Q3 and 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 with respect to the Mistral acquisition, which was not part of original purchase consideration

Outlook & Valuation

AXISCADES Technologies reported a mixed performance in the fourth quarter of FY23, primarily due to an exceptional item. However, the company is displaying a proactive approach for FY24 and aims to surpass industry growth. They have set a margin target of 18-19% in the near term. In order to enhance their market share in the aerospace sector, AXISCADES is leveraging the expertise of Mistral. They have solidified their position by securing a long-term contract with Airbus and establishing a new center in Broughton, UK. Moving forward, there is an expectation of improved revenue growth and EBITDA margin. The company intends to follow three key strategies: vertical diversification, customer diversification, and offering digital services. We **value the stock on a P/E (x) multiple of 22.5x to its FY25E EPS INR 17.2, which yields a target price of INR 387 per share (Earlier target price of INR 401 per share). We downgrade our rating from an accumulate to Hold on the stock.**

Exhibit 1: Financial Performance

Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Revenues	6,103	8,216	9,193	10,286
EBITDA	706	1,456	1,526	1,749
EBITDA Margin	11.57%	17.72%	16.60%	17.00%
PAT	227	-48	564	652
EPS	5.9	-1.4	14.9	17.2
PE	62.6	-267.6	24.7	21.3

Source: Arihant Research, Company Filings

Exhibit 2: Q4FY23 - Quarterly Performance (Consolidated)

Particulars (INR Mn)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenue USD \$ Mn	27.70	26.2	26	5.7%	7.8%
Net Revenue	2,260	2,157	1,927	4.8%	17.3%
Raw Material Cost	521	505	515	3.2%	1.2%
Employee cost	854	978	825	-12.7%	3.6%
Other Expenses	417	355	298	17.4%	39.8%
EBITDA	467	319	289	46.8%	61.8%
EBITDA margin %	20.7%	14.8%	15.0%	592bps	569bps
Deducting-Net one time item	133	-	-		
Adj. EBITDA	334	-	-		
Adj. EBITDA margin %	14.8%	14.8%	15.0%	3bps	-19bps
Other Income	10.78	18.31	28	-41.1%	-62.1%
Depreciation	67	63	72	5.7%	-7.0%
EBIT	411	273	245	50.4%	67.6%
Margin	18.2%	15.3%	13%	289bps	547bps
Finance cost	141	115	41	22.8%	246.2%
PBT before exceptional item	269.842	158.339	-17	70.4%	-1693.5%
Exceptional Item	-	-236	188	-	-
PBT After exceptional item	269.842	-78	-	-	-
Tax Expense	109	25	78	341.2%	41.1%
Effective tax rate %	40.5%	15.7%	41.3%	-	-
Company level PAT	160.43	-102	110.0	-256.8%	45.9%
share of P/(L) Associates	-	-	-3.5	-	-
non-controlling	1.3	1.2	1.1	14.8%	19.2%
Adj PAT	159.11	132.39	105.36	20.2%	51.0%
Adj Pat margins	7.0%	6.1%	5.7%	92bps	130bps
EPS (INR)	4.17	-2.72	2.78	-	-
Adj.EPS (INR)	4.17	3.49	2.78	-	-

*During Q4FY23, the Company received INR 211 Mn from US Government as payroll subsidy for Covid in our US entity. The Company also took an additional charge of INR 56.5 Mn in consolidated financial results, on account of share warrants to be issued by Mistral Solutions and INR 21.2 Mn as additional ESOP charge, resulting in a net onetime benefit of INR 133 Mn, which forms part of EBITDA. The impact is INR 133 Mn for Q4FY23 & FY23. Excluding the net onetime benefit

Exhibit 3: Revenue Matrix

Revenue by Vertical	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY
Engineering Design Services	67.20%	70.80%	60.20%	-0.50%	30.90%
Strategic Technology Solutions	32.80%	29.20%	39.80%	17.60%	-3.40%
Revenue by Industry	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY
Aerospace	28.00%	28.20%	22.40%	3.80%	45.10%
HEG & Others	18.10%	19.70%	21.40%	-3.70%	-1.70%
Product Engineering Services	12.90%	15.90%	11.80%	-14.80%	27.00%
AIP	5.50%	4.50%	2.70%	26.40%	138.80%
Energy	2.20%	2.30%	1.80%	2.00%	46.50%
Products and Solutions	33.20%	29.50%	39.90%	17.60%	-3.20%
Revenue By Geography	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY
Europe	28.30%	34.20%	29.20%	-13.40%	12.80%
USA	28.10%	32.70%	28.00%	-10.30%	16.50%
APAC	38.50%	28.70%	38.50%	40.20%	16.20%
Canada	5.00%	4.40%	4.20%	19.00%	38.20%
Revenue by Location	Q4FY23	Q3FY23	Q4FY22		
Offshore	76.30%	76.10%	75.70%		
Onsite	23.70%	23.90%	24.30%		
Revenue by Project	Q4FY23	Q3FY23	Q4FY22		
Fixed Price	65.80%	60.90%	61.60%		
Time & Material	34.20%	39.10%	38.40%		

Source: Arian Research, Company Filings

Conference Call Highlights

The company is quite aggressive for FY24 and grows beyond industry growth. Margin target of 18-19% in near term

- AXISCADES has formed a strategic partnership with Mangal Industries, enabling them to enhance their engineering services and offer advanced product design, manufacturing engineering, and Industry 4.0 solutions to their clients.

- Mistral:** Progressing with the integration of Mistral business, aligning offerings and engaging closely with clients to enhance digital-first strategy and provide synergistic solutions across the customer base.

Segment wise:

- The company is actively seeking to increase its market share in the aerospace industry by utilizing the expertise of Mistral. They have strengthened their position by securing a long-term contract with Airbus and have also established a new centre in Broughton in UK. Although there were economic uncertainties impacting HEG's performance in FY23, the company anticipates growth in both FY24 and for HEG in the coming year.

- Products and Solutions vertical has delivered strong growth of 51.3% YoY; driven by the traction in a recently won contract for the supply of Anti-drone systems to Indian defence.

- Mistral's Product & Engineering services division achieved impressive year-on-year growth of 33.5%, and the company is determined to maintain this positive trend by capitalizing on opportunities and leveraging the group's capabilities. Similarly, the Product & Solutions segment saw substantial growth, with a revenue increase of 51.3%. The company remains optimistic about the opportunities and order pipeline in this segment.

- The company plans to expand its revenue presence in the digital and embedded sectors. Additionally, they have recently recruited a salesperson in the United States from a competing company. Leveraging the acquired capabilities of Mistral, the company expects to experience growth in the upcoming FY24.

- The automotive sector experienced a substantial year-on-year growth of 65.2%. This growth can be attributed to the acquisition of new automotive clients in the fields of embedded systems, mechanical engineering, and hardware. The progress aligns with the company's expectations, and the management holds a positive outlook for the automotive vertical, particularly due to the involvement of a major client who has recently signed up.

- Organic growth, the company is looking for partners for the Auto in Europe and the US.

- The company has made a good captive with a global company in India. The large engineering captive is the focus.

- In Energy, a small opportunity to look in the Middle East and Scotland.

- Defence:** Electronic part of defence like mechatronic, drone (Mistral) and anti drone (Axiscades), telemetric device. These are the areas where the company is very strong, they continue to push big projects in the design pipeline. The company has strong relationships with DRDO , LRDE and LTO and production partners BEL and HAL.

- Digital:** The implementation of automation technologies, specifically in the engineering and aerospace industries, is instrumental in enhancing EBITDA and driving positive business outcomes. By leveraging AI/ML technologies, there exists a significant opportunity to revolutionize the business model by transitioning from conventional delivery approaches to utilizing tools and models for client delivery.

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

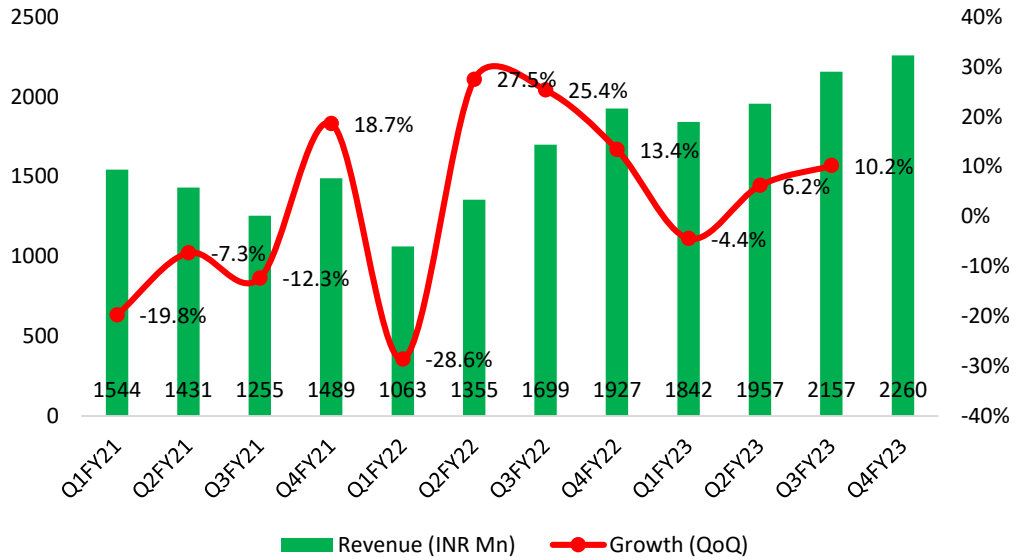


Exhibit 5: Margin expansion led by strong top line growth

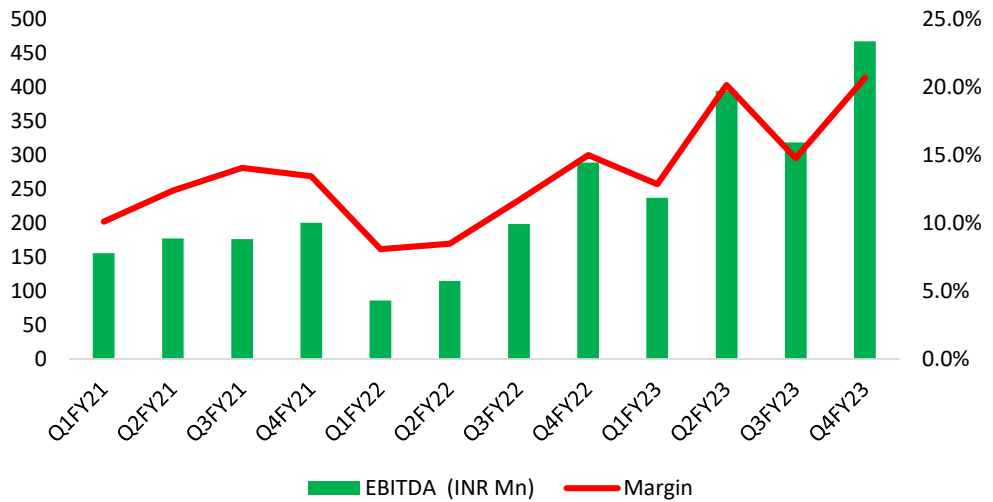
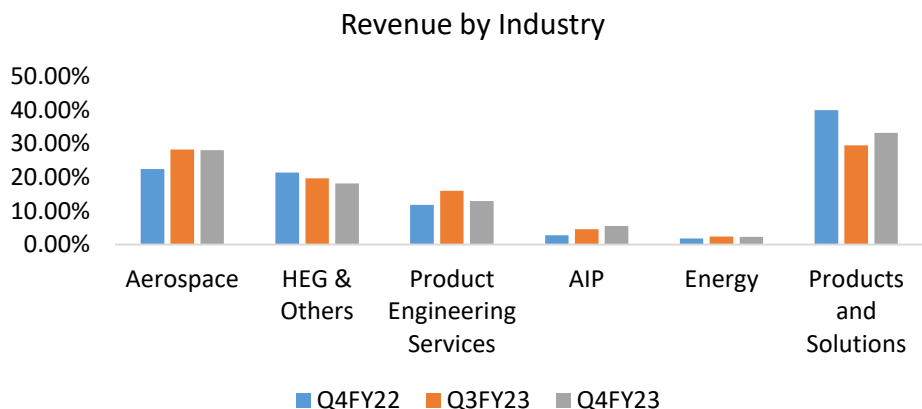


Exhibit 6: Robust growth across the segment



Source: Arianth Research, Company Filings

Key Financials

Income Statement				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Revenues	6,103	8,216	9,193	10,286
Change (%)	16.5%	30.0%	12.0%	12.0%
Raw materials	1,167	1,792	1,866	2,078
Employee costs	3,121	3,609	4,330	5,020
Other expenses	1,109	1,360	1,471	1,440
Total Expenses	5,397	6,761	7,667	8,537
EBITDA	706	1,456	1,526	1,749
EBITDA Margin	11.6%	17.7%	16.6%	17.0%
Deducting-Net one time item	-	133	-	-
Adj. EBITDA	-	1323	-	-
Adj. EBITDA margin %	-	16.10%	-	-
Other Income	91	60	74	82
Depreciation	251	265	336	427
Interest	158	359	349	345
PBT	389	891	914	1,058
Extra-ordinary	-17	-680	-	-
PBT after ext-ord.	368	210	913	1,057
Tax	141	258	350	405
Rate (%)	38.3%	122.8%	38.3%	38.3%
PAT	227	-48	564	652
MI & Associates	-9	-0.4	-1	-1
Adjusted PAT	227	-53	564	653
Change (%)	0.0%	0%	0%	15.8%

Balance Sheet				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Share Capital	190	191	191	191
Reserves & Surplus	3,123	3,190	3,753	4,404
Net Worth	3,313	3,381	3,944	4,595
Loan Funds	488	3,140	3,140	3,140
Deferred Tax & other liabilities	-	-	-	-
Capital Employed	3,854	6,579	7,142	7,793
Application of Funds				
Gross Block	3,001	3,362	3,562	3,662
Less: Accumulated Depreciation	1,326	1,592	1,928	2,355
Net Block	1,675	1,770	1,634	1,306
CWIP	-	-	-	-
Other non current assets	350	201	201	201
Deferred tax assets	280	198	198	198
Net fixed assets	2,305	2,169	2,033	1,706
Investments	838	335	335	335
Debtors	1,452	1,790	2,003	2,241
Inventories	516	659	685	763
Cash & bank balance	1,054	996	3,871	4,862
Loans & advances & other CA	391	106	106	106
Total current assets	3,412	5,143	6,665	7,972
Current liabilities	3,869	2,198	2,758	3,086
Provisions	237	267	267	267
Net current assets	-694	2,678	3,639	4,618
Total Assets	3,854	6,579	7,142	7,793

Cash Flow Statement				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
PBT	368	210	913	1,057
Depreciation	251	265	336	427
Interest & others	58	295	275	262
Cash flow before WC changes	676	770	1,525	1,747
(Inc)/dec in working capital	1,087	-1,837	321	12
Operating CF after WC changes	1,763	-1,067	1,846	1,759
Less: Taxes	-141	-258	-350	-405
Operating cash flow	1,622	-1,325	1,496	1,354
(Inc)/dec in F.A + CWIP	139	312	-200	-100
(Pur)/sale of investment	44	503.14	-	-
Cash flow from investing	183	815	-200	-100
Free cash flow (FCF)	1,822	-1,225	1,296	1,254
Loan raised/(repaid)	-26	2,652	-	-
Equity raised	1	1.43	-	-
Interest & others	-1,574	-2,200	1,579	-263
Dividend	-	-	-	-
Cash flow from financing activities	-1,599	453	1,579	-263
Net inc / (dec) in cash	206	-57	2,875	991
Opening balance of cash	848	1,054	996	3,871
Closing balance of cash	1,054	996	3,871	4,862

Key Ratios				
Y/E March (INR Mn)	FY22	FY23	FY24E	FY25E
Per share (Rs)				
EPS	5.9	-1.4	14.9	17.2
CEPS	12.6	5.6	23.7	28.4
BVPS	87.3	89.1	103.9	121.1
DPS	-	-	-	-
Payout (%)	0.0%	0.0%	0.0%	0.0%
Valuation (x)				
P/E	62.6	-267.6	24.7	21.3
P/CEPS	29.1	65.5	15.5	12.9
P/BV	4.2	4.1	3.5	3.0
EV/EBITDA	18.9	11.0	8.6	7.0
Dividend Yield (%)	-	-	-	-
Return Ratio (%)				
EBITDA Margin	11.6%	17.7%	16.6%	17.0%
PAT Margin	3.7%	-0.6%	6.1%	6.3%
ROE	6.8%	-1.6%	14.3%	14.2%
ROCE	11.8%	18.1%	16.7%	17.0%
Leverage Ratio (%)				
Total D/E	0.15	0.93	0.80	0.68
Net D/E	-0.2	0.6	-0.2	-0.4
Turnover Ratios				
Asset Turnover (x)	1.6	1.2	1.3	1.3
Inventory Days	161	134	134	134
Receivable Days	87	80	80	80
Payable days	246	110	110	110

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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